PAY INCREASES FOR MILITARY PERSONNEL

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THURSDAY, MAY 7, 1981

U.S. SENATE,
SUBCOMMITTEE ON MANPOWER AND PERSONNEL,
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met in open session, pursuant to notice, at 2 p.m., in room 212, Russell Senate Office Building, Senator Roger W. Jepsen (chairman) presiding.

Present: Senators Jepsen, Quayle, Denton, Byrd, Jr., Nunn, and Exon.

Staff present: Paul C. Besozzi, minority counsel; Anthony J. Principi and George F. Travers, professional staff members; Richard D. Finn and Ralph O. White, Jr., research assistants; and Jacquie S. O'Grady, staff assistant.

Also present: Chris Lehman, assistant to Senator Warner; Jim Dykstra, assistant to Senator Cohen; Hermann Pirchner, assistant to Senator Jepsen; Bill Furniss and Dennis Malloy, assistants to Senator Quayle; Hal Sisson and Paul Schrieber, assistants to Senator Denton; Gray Amistead, assistant to Senator Byrd; Arnold Punaro and Ed Negy, assistants to Senator Nunn; Greg Pallas, assistant to Senator Exon.

OPENING STATEMENT BY SENATOR ROGER W. JEPSEN, CHAIRMAN

Senator JEPSEN. The Subcommittee on Manpower and Personnel will come to order.

I would like to recognize above and beyond the call of duty the efforts of Dr. Korb in order to make the hearings that we rescheduled rather suddenly. I understand he has flown all night from Hawaii in order to testify. I understand he flew all night with a planeload of very active senior high school youngsters.

The Subcommittee on Manpower and Personnel meets today to consider military compensation, particularly the pay increases that the administration has requested for fiscal years 1981 and 1982.

We are pleased to receive testimony on this important subject from our colleague, Senator William Armstrong of Colorado, a strong and articulate voice on military manpower issues; Dr. Lawrence Korb, Assistant Secretary of Defense for Manpower Reserve Affairs and Logistics; Mr. Robert Hale of the Congressional Budget Office; and Mr. Kenneth Coffey of the General Accounting Office.

During the past few years there has been a growing realization that manpower problems have contributed to the decline in our country's military capabilities. Among the most serious personnel problems are: (1) The difficulty and expense of recruiting eligible

youth for such basic military skills as the combat arms; (2) the shortage of qualified personnel in technical fields like aviation and nuclear engineering; (3) the troubling trends in the quality of new recruits; and (4) the serious manning shortfalls in the Reserve Forces, especially in the Individual Ready Reserve.

Last year this subcommittee responded to these problems with a series of significant improvements in military compensation and in various quality-of-life areas. Obviously more needs to be done but not without a good, hard look at specific problems and solutions.

When the Federal Government is under increasing pressure to fully justify the spending of taxpayers' hard-earned wages, we simply cannot afford not to take an imaginative and discriminating approach to solving our military manpower problems.

This subcommittee intends to bring this kind of attitude to bear on the complex issue of compensation. In particular I plan to recommend early next week legislation which will be both fair to all our servicemen and effective in relieving some of the personnel problems I outlined earlier. In this effort I welcome the testimony of Senator Armstrong and our other witnesses today. Welcome to the subcommittee. Senator Armstrong, you may proceed.

STATEMENT OF HON. WILLIAM L. ARMSTRONG, A SENATOR FROM THE STATE OF COLORADO

Senator ARMSTRONG. Thank you, Mr. Chairman. I am honored to appear before the subcommittee. I am particularly appreciative that the subcommittee, under your leadership, has seen fit to separate out the question of military manpower and the pay issue from the large overall questions that are addressed in the fiscal year 1982 military authorization bill.

Mr. Chairman, it would be my judgment that military personnel all over the world are enthusiastic about the leadership you are providing on this issue because they know, as I do, that you are devoted to solving the problems of the military.

You are not only concerned with the defense effort but you have closely at your own heart the needs and interests of our men and women in uniform. I have had many of them express that to me and I feel that same way.

All of us who care about this issue are extraordinarily grateful for your concern and leadership on this matter. Mr. Chairman, my thought would be that I would like to put my prepared statement in the record and make a few brief observations in addition to that.

I think it would be presumptious of me to try to instruct this subcommittee on military personnel issues although these are matters of great interest to me. If that is agreeable, I will just offer my statement to the committee clerk.

Senator JEPSEN. The statement of Senator Armstrong will be entered into the record as if read. You may proceed.

Senator ARMSTRONG. Thank you, Mr. Chairman. I think the administration is on the right track by suggesting an increase in military compensation. I think that for those of us who have been pushing for this that the attitude of the administration is in general a wholesome and welcome change from that of the prior administration.

But at the same time I am concerned about a couple of aspects of the proposal which has been sent to us by the department. First of all, I note that passing the suggestion for a 5.3 percent pay increase may convey to somebody the idea that the amount of the suggested increase is a precision figure that has been determined to be the amount necessary to meet the need.

In fact some of the statements which are being made in the House Armed Services Committee indicate that exactly this is the case, that somehow 5.3 is the magic number that has been determined to be the amount which will first of all meet the recruiting needs of the country and the retention needs of the services but which is also the amount which is necessary to keep military personnel up with inflation.

In fact this is not the case. As I talk to men and women in uniform three issues come up over and over again. First of all, what am I earning in relation to what it costs me to live?

Second, what are my earnings, present and projected, as compared with what I might earn for similar work on the outside in nonmilitary employment?

And third, how does my pay stack up compared with those who are senior or junior to me?

The first consideration obviously is particularly important. Like anyone else soldiers, sailors and airmen have to feed themselves and their families.

I want to point out that a 5.3-percent pay increase is not adequate in my opinion to meet the cost-of-living changes that have occurred in recent years. Since the time the All-Volunteer Force came into existence the actual amount of purchasing power of the serviceman's dollar has fallen from 18 to 30 percent based on their pay grade.

It may be that 5.3 percent is all we can afford at the present time, but I would not want to let anybody think that that was the ultimate objective or that that was sufficient to bring service personnel up to where they ought to be.

The second consideration is the question of comparability with civilian work. Most men and women in uniform do not expect to necessarily earn as much in the service of their country as they might if they were doing the same jobs in civilian life.

But if we permit the disparity to grow too great, then it seems to me that we are stretching very thin the serviceman's sense of obligation and asking him to make a choice between his sense of obligation to his country and that to his family.

At the present time the disparity in compensation in critical military occupation specialties is not 5.3 percent but in some instances as much as 50, 100 and even 200 percent. I flag that for the attention of the committee as a problem which must be addressed if we are able to hold people in these critical MOS's.

The third question is how do I stand in comparison with people who are just above or just below me, that pay compression question and it is a very, very serious issue. For example, in the NCO grades promotion from E–3 to E–4, lowest non-commissioned officer grade, means an increase in basic pay of just about $6 a week. Throughout the NCO and in some officer grades the pay compression question is a serious one.

This leads me to a basic concern I have about the notion of an across-the-board pay increase at this time. It is that it would compound the existing problem of compensation. In addition it could be that an across-the-board pay increase would put us in a position of overpaying at both ends of the military spectrum, that is at the bottom and top, while continuing to underpay in the noncommissioned officer grades where the personnel shortages are the most acute.

I do not think you can find a member of the Senate who is more sympathetic to the notion of generally raising military pay, but I do have some doubts whether or not if we are limited in what we can spend, and clearly we are, whether or not the best way to spend that money is in an across-the-board fashion.

Related to the issue of whether or not we ought to apply scarce resources to an across-the-board pay increase rather than some kind of targeted increase is the effect that it can have on military retirement.

A mere $3 billion in 1970, pensions for retired military personnel are expected to cost us more than $16 billion by the next fiscal year. So I would urge the committee to at least consider focusing a portion of the funds available for pay increase in those portions of the pay package which do not emphasize themselves later in the retirement. portion.

Finally, Mr. Chairman, I want to talk about what brings people into the service. I am a great believer in market incentives, in military compensation packages and in other ways. But I begin to have the feeling that there are some people who have the idea that being in the armed services is a job just like anybody. And the way to get people in is to appeal primarily or solely to marketplace incentives, in other words cash front.

In my opinion this is too grossly misunderstood, what motivates people to serve their country in uniform services and is dangerous in the long run to the security of our country. I personally doubt that if we rely only or even primarily on just paying whatever the market demands, that we can recruit an Armed Forces of the size and sophistication that we require even if we have unlimited funds. I do not think we can do it.

To try to rely only on cash payment, market incentives, given the budgetary restraint we face, I think just invites disaster. And in fact I think that is partly what has created the problem we have now, the marketplace incentives that we are talking about in the volunteer service at the present time against the 83 percent of the Federal minimum wage and rise from there in only the tiniest of increments.

It is no wonder, in my judgment, that we are facing the kind of recruiting and retention shortfalls that have characterized our services at the present time. We need to look upon the increases in military compensation not only as a means of providing incentives for enlistment and reenlistment in the Armed Forces but primarily as a means of removing disincentives that override the other nobler reasons that cause people to consider a hitch in the armed services.

As I see it, there are three kinds of people who are going to come into uniform services. First, there are those young men and women who are reasonably certain they want to make military life their career. Higher pay and benefits of the career forces, of which they intend to become a part, will have greater attraction for them.

But their basic consideration is not necessarily pay. That is important but their motivation is in very large measure patriotism, lifestyle in the sense of extended family, that is a career service person.

Second, there are those young men and women who do not necessarily intend to make a career out of military life but out of a combination of patriotism and civic obligation or a desire for adventure or to prove themselves or to take special training and education, will have in mind a brief period, 2- or 4-year period, of enlistment in the armed services.

This is an important group, a group that we ought to try to attract, the upward mobile high school graduates, and for this particular group it seems to me that there is nothing more important that we can do than to enact a new GI, education benefit bill.

I am aware that that is not directly the issue of this hearing but I note it in passing because it is a very important part of the incentive which is needed to attract and hold qualified personnel.

The third group who may come into the services is those individuals who have no particular interest in military life as a career, who are not particularly interested in improving themselves but just cannot get a job anyplace else.

Unfortunately far too high a proportion of the recruits that have been coming into our volunteer services recently have been from this group. In my opinion we must be very careful that we are not inundated with people who simply cannot find work elsewhere or we will end up with those who simply are not qualified by motivation, education, background, skill or future potential to well serve their country.

Mr. Chairman, in summary, I recommend the following based on the considerations that I have mentioned and others that are contained in my prepared statement. First, I recommend that the subcommittee approve some increase in military pay or benefits in July as the administration has proposed.

I think it would be postponed entirely because the announcement of the suggested increase by the administration has been heard all around the world, and for us to dash the hopes that have been raised I think would be a mistake.

But it might be better if the July increase in military compensation took some form other than an increase in RMC. For example a portion could go to 100-percent reimbursement of the cost of permanent change of station moves which is a matter I know this subcommittee has considered in the past, and I know the subcommittee is well aware of what a sticky and difficult problem it poses for military families when they are not reimbursed for these moves.

If the committee decides to go forward with an increase in regular military compensation in July, in my opinion it should be weighted toward the noncommissioned officer grades but everybody should get something. Something on the order of the first year of the National Defense Compensation Act which would provide a 3-percent increase for junior enlisted personnel and a 6-percent increase for NCO's should be considered.

Perhaps it would be even better to delay the increase in the regular military compensation until the October cost of living increase and target these benefits at the earlier time.

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I recall, I believe at the suggestion of the chairman of the full committee, a provision which inserted in last years military procurement bill which provided for redistribution among grades of up to 25 percent of the cost-of-living increases, the range of pay boost in that situation that could be provided in October would be something like 7.5 percent which would make a great contribution to resolving the compression question.

Mr. Chairman, finally, I hope the committee at the right time will consider phasing in catchup pay increases over a period of years as I have proposed in the legislature which I have pending before the committee under the title of the National Defense Compensation Act.

This would permit a larger military pay increase than we could otherwise afford and would give us recruitment and retention benefits now in anticipation of future pay increases contained in that legislation.

Again, Mr. Chairman, I thank you for the opportunity to appear and particularly for your leadership and determination to give our service personnel what they need and deserve and in so doing shore up the volunteer service.

[The prepared statement of Senator Armstrong follows:]

PREPARED STATEMENT OF SENATOR BILL ARMSTRONG

Mr. Chairman, I want to thank you for the opportunity to appear before you, and to commend you for holding these hearings. By pulling the issue of military compensation out of the fiscal year 1982 military authorization bill, and treating it as a separate issue, you are giving what I regard to be proper emphasis to the military manpower problem. I regard resolution of this problem as an even higher priority than the weapons procurement bill we passed last week. Good people can get a lot of mileage out of lousy equipment. But all the hardware in the world is only so much icing on a hot cake without the right numbers of the right kind of men and women to operate it.

I also want to commend the Administration for recognizing the seriousness of the manpower problem, and for proposing, promptly, the most critical element in a solution to it: an increase in military compensation. The heartfelt concern of this Administration for the welfare of our servicemen and women is in stark and welcome contrast to four years of neglect from the previous administration.

The Administration has proposed a 5.3 percent pay raise. This calculation out to the decimal point could cause many in the Congress and the country to assume that a 5.3 percent raise is the precise amount which is needed to provide recruiting and retention incentives and/or to fill the calculated need to keep service personnel even with inflation. Indeed, statements by members of the Armed Services Committee indicate this already is happening.

But nothing could be further from the truth.

In the real world, there are at least three aspects of military compensation that have a substantial impact on a serviceman's decision on whether or not to reenlist. The serviceman asks himself:

What am I earning in relation to what it costs me to live?

What am I earning in relation to what I could be earning on the outside?

And, what am I earning in relation to those junior and senior to me in grade?

The first consideration is, of course, the most important. Soldiers, like the rest of us, have to eat. But the purchasing power of the serviceman's dollar has fallen not 5.3 percent, but 18 to 30 percent, depending on pay grade, since the All Volunteer Force came into being. So in total the projected increase is inadequate. It may well be all we can afford, but it is nonetheless inadequate to need.

The second consideration is also very important. Servicemen don't expect to earn as much as they could be earning for comparable civilian work. But if we permit the disparity to grow too great, the serviceman's sense of obligation to his family will override his desire to serve his country. And the disparity in compensation for those Military Occupation Specialties in which shortages are most critical ranges from 50 to 200 percent, not 5.3 percent.

The third consideration—what am I earning in relation to those junior and senior to me in grade?—highlights the problem of pay compression, which is

becoming an increasingly serious contributor to the retention problem. Soldiers, like the rest of us, want to see some progression in their careers, some increase in material benefit for the additional experience they gain and the additional responsibilities they assume. At present, this progression just isn't there. Promotion from E3 to E4, the lowest noncommissioned officer grade, means an increase in basic pay of only about $6 a week. Promotion from E4 to E5, where an nco's responsibilities take a quantum jump, nets even less.

This leads to my second and more serious reservation about an across-the-board pay raise. Such a pay raise compounds the problem of pay compression, and will make the problem billion: of dollars more expensive to resolve when we finally get around to addressing it, which we must to solve the problem of retention.

Worse, an across-the-board increase could cause us to overpay at both ends of the military pay scale, while continuing to underpay in the noncommissioned officer grades, where personnel shortages are most acute. No one is more in favor of higher military pay than I am. But our resources are finite. And the more we spend on those who need it less, the less we have to spend on those who need it more.

A related problem with an across-the-board pay increase is the effect it would have on the burgeoning costs of military retirement. A mere $3 billion in 1970, pensions for retired military personnel are expected to cost us more than $16 billion by the end of the next fiscal year.

To the extent that military retirement is a problem, it is largely a problem of officer compensation. Officers comprise 13 percent of the active force, but account for 47 percent of retirement costs. Given present longevity tables and inflation rates, the typical officer can expect to receive more in retirement pay than he earned in all his years of active service.

I am not unduly alarmed by the growth in retirement costs. Even with the present cost explosion, the present retirement scheme is a better deal for the taxpayer than almost any other system that could be devised. It is doubtful that we could keep in the service as many people as we do for as long as we do were it not for the lure of retirement after 20 years of service. It is certain that any other system that would produce similar results would cost a good deal more.

But we should not needlessly add to our retirement costs. I believe, firmly, that officer compensation should be increased. But future increases in officer compensation should be weighted toward increases in the Basic Allowance for Subsistence and the Basic Allowance for Quarters, and into specialty and proficiency pays that don't factor into calculations of retirement pay.

Some people feel that service in the Armed Forces is a job like any other job, and that the ranks can be filled by people responding to "marketplace incentives," chiefly cash up front.

This notion is at once insulting to the men and women who have sacrificed so much to wear the uniform of their country, and very dangerous to the security of the Nation. I doubt very much we could recruit an Armed Force of the size and sophistication we require based only on financial or market incentives even if we had an unlimited amount of money to spend on "marketplace incentives". And I would be leery of the effectiveness of such a force if it were ever called upon to go into battle. But I am certain we could never recruit such a force on the basis of the "marketplace incentives" we can afford. When the "marketplace incentives" begin at 83 percent of the minimum wage, and rise from there in only the tiniest of increments, we're asking for the kind of trouble we've been experiencing in recruiting for the All Volunteer Force.

We need to look upon increases in military compensation not as a means of providing incentives for enlistment and reenlistment in the Armed Forces, but as a means of removing the disincentives that override the other, nobler reasons which cause an individual to consider a hitch in the Armed Forces, or to make the military his career. We must understand that men do not, and never will, jump out of airplanes or spend half their lives underwater in a nuclear submarine chiefly for the money. If we pay our career servicemen and women a living wage, and pledge to them their families will be taken care of should something befall them—a thought which can never be far from a soldier's mind—the patriotism and dedication of our career officers and ncos will in the future, as it has in the past, provide us with an armed force of the quantity and quality required to defend our country.

Increases in compensation weighted towards the career force, coupled with enactment of a new GI bill, also will provide recruits for our Armed Forces in the quantity and quality desired.

Individuals who are contemplating enlistment in the Armed Forces can be grouped into roughly three categories:

First, there are those young men and women who are reasonably certain they want to make the military their career. Higher pay and benefits for the career force, of which they intend to become a part, will have as much or more an attraction to them as a military pay scale front-loaded in the lower enlisted grades.

Second, there are those young men and women who have no intention of making the military their career, but who out of a combination of patriotism, a sense of civic obligation, a desire for adventure or to prove themselves, or who wish to obtain some special training or education to step up in life, are willing to serve in the Armed Forces for a single enlistment. A new GI bill would be very, very effective in increasing their numbers.

Third, there are those individuals who have no particular interest in the Armed Forces or in improving themselves, but who can't find a job elsewhere. It is to these individuals that the "marketplace incentives" that have been the mainstay of the All Volunteer Force since 1976 have their greatest appeal.

My recommendations to the subcommittee are as follows:

The subcommittee should approve some increase in military pay or benefits for July, as the administration has proposed. Expectations have been raised in the Armed Forces by the public announcement of the administration's plan, and it would not be wise to dash them. But it would be better if the July increase in military compensation took a form other than an increase in RMC—100 percent reimbursement of the costs of Permanent Change of Station moves, for instance.

If the committee decides to go forward with an increase in RMC for July, it should be weighted toward the noncommissioned officer grades, but everybody should get something. Something on the order of the first year of the National Defense Compensation Act, which would provide a 3 percent increase for junior enlisted personnel and a 6 percent increase for ncos, should be considered.

But it would be better still to delay an increase in RMC until the October cost-of living increase. It would be easier for the committee to provide targeted pay increases at that time, since everybody would be receiving a substantial raise, and consequently would be less likely to take offense over the fact that some would be receiving larger raises than others. If the committee chooses to keep the provision which Chairman Tower wisely inserted in last year's military procurement bill, providing for the redistribution among grades of up to 25 percent of the cost-of-living increases, the range of pay boosts that could be provided in October would be from about 7½ to 17 percent, very likely enough to resolve the problem of pay compression.

Finally, the committee should consider phasing in catchup pay increases over a period of years, as I have proposed in the National Defense Compensation Act. This would permit a somewhat larger military pay increase than we could otherwise afford, and would give us recruitment and retention benefits now in anticipation of the future pay increases.

I want to thank you again, Mr. Chairman, for giving me this opportunity to present my views. I'd be pleased to answer any questions that you or other members of the subcommittee might have.

Senator JEPSEN. Thank you for a very excellent statement. Senator Denton, do you have any questions?

Senator DENTON. I do not have any comments right now or questions, Mr. Chairman.

Senator JEPSEN. Senator Armstrong, we are of course looking at educational assistance of some type. We authorized the expenditure of approximately $100 million last year and an educational assistance program study which, like a lot of other studies we authorized, I think is at least 20 times too much, but it did evolve into a pretty good study.

It is 8 months old. We have not had the results analyzed yet. Have you had any knowledge or word that we might not have?

Senator ARMSTRONG. Mr. Chairman, I have a somewhat negative impression of that study that is underway. We have not seen the results of it. Just consulting my staff, my impression is that that is a series of educational tests and also involves the study of the VEAP program that I do not think has a chance to succeed.

I do not consider myself an authority on VEAP but that is a contributor program. In our office, Mr. Chairman, we are skeptical of the results of that program. We are skeptical of the contributor VEAP program and also the noncontributor test program because it is not being advertised and so on. I think the bottom line as far as I am concerned is this.

In order to really be a major inducement to retention and reenlistment we have to have something that is better as a result of service in the Army or whatever it may be than you can get without serving. We have such large and very generous education benefits available to high school graduates who do not serve that by comparison what we are offering service personnel is quite meager. Somebody has characterized it as having a GI bill without the GI.

While I do not mean to prejudge the results of the tests that are underway, my own opinion is that it is not likely to be definitive.

Senator JEPSEN. Senators are naturally known to be strong opponents for significant pay increases for the career system members, both officers and enlisted. The committee has spoken of the invisibility of military compensation, free medical care, commissary and exchange privileges, retirement annuities, a conglomeration of special pay and bonuses.

Should those items be considered when analyzing pay comparability? Would you just comment generally on that?

Senator ARMSTRONG. Mr. Chairman, I think there are a couple of issues on comparability. First, I think it is very easy to overestimate the value of the items which are commonly cited as being great advantages for military personnel.

Certainly they have some advantages but I often hear cited, for example, Commissary privileges. Yet people who have those privileges tell me that they are not all that they are cracked up to be. In my case the two issues that come to mind immediately when we talk about comparability are what has happened to the purchasing power of military personnel in the years since the volunteer Army came into existence. That is something we can make an objective measure of.

Since the very notion of the volunteer service at the outset was that we are going to give to the military personnel the pay and benefits, education opportunities, career incentives, challenges, prestige that are necessary to make the volunteer system work, we now have years of experience and the experience is compared to what it was, the purchasing power in those days when the draft was abolished.

Clearly there has been an erosion of the relative standing of military personnel as compared to what it was 6 or 7 years ago. I do not think anybody argues that. Some might say some of those things were present then and are still present, and they make the picture better than it was. But clearly there was an erosion.

Second, not so much whether I think the pay is adequate but what the market says. The market says it is not adequate to hold people in these critical MOS's. I think somebody who is living in a subdivision, say in Colorado Springs, and doing for the military the same kind of work that is neighbor next door is doing for one of the electronic companies, and they are both doing the same kind of work, but the serviceman is working longer hours on a fixed term of enlistment with some hardship, some separation from his family, and

the guy next door who is doing the same sort of thing, radar technician or aircraft mechanic, is making two or three times as much.

That kind of comparability is very hard to explain to the people involved. I have said that I do not think we have to have full comparability. Somebody does not have to make as much in the service as he can make in compensation in civilian life because there are other compensations, patrotism, life style and other things.

There is a limit to how far you can go and in occupation after occupation the differential between military and civilian personnel in roughly the same job is 100 percent and even more, 200 percent in some cases, I am advised.

Senator JEPSEN. I find myself in an agreement with most everything you say. I do feel that base housing, medical care and other things have really been affected by inflation.

Senator ARMSTRONG. It is certainly part of the package, Mr. Chairman, as we all agree.

Senator JEPSEN. That is a kind of personal observation question. I just want to get a foundation here. I remember that you were a pretty strong supporter of an across-the-board pay increase. I notice today you are saying maybe we should not do that, that we should get at where the problem is. Is that right?

Senator ARMSTRONG. No, Mr. Chairman. My initial interest in this matter a couple of years ago was focused on the need of an across-the-board pay increase. The reason was, as you recall, the prior administration held up the automatic cost-of-living adjustment.

It seems to me at that time the crucial need was for simply restoring what was already in the law. In other words that had already been put into the law by Congress and was held up by action of the President.

So that seemed to me the first thing was to restore that. I could easily support an increase in pay for every grace and rank. The reason why I have somewhat backed away from the notion of an across-the-board pay increase in the testimony that I submitted today is partly because of arguments and observations by members of this committee and partly because of the recognition that the pay compression probably is a serious one. And an across-the-board pay increase will tend to aggravate that, partly in recognition that we did get an across-the-board pay increase last year, and I would hope that inflation increases would be forthcoming later on.

The question then is if we are looking at a pool of money representing 5.3 percent, whether it is best at this moment to simply use that in an across-the-board manner or whether or not it would be better to target a bit. I do not think we would be wrong to give it across the board. I just think for the reasons I have explained that we can use it with more justice and more equity and with better effect in a somewhat targeted manner.

Senator JEPSEN. I have one last question and then Senator Denton has some things he would like to talk to you about. Do you feel that the GI bill would be most effective for recruiting?

Senator ARMSTRONG. Mr. Chairman, in my judgment the GI bill addresses itself with great precision and with great power to the recruitment of a certain kind of person. It does not do much in my opinion, if anything for retention, nor does it do very much for the recruitment

of somebody whose goal and objective is a long-term permanent career in the military.

The kind of person it will bring in is somebody who is willing to consider 2 years or 3 years or 4 years service to his country, first as a form of patrotic endeavor, as an adventure, and as alternative to working their way through college.

There are a lot of people who, if they had before them a generous GI bill, would see an investment a couple of years that way and then be able to go to college with their expenses virtually paid as a good trade-off, as a good investment of their time.

We have done extensive studies on this and have submitted a fair amount of material to the Veterans Committee as well as to this committee which gives us every reason to think that we could recruit enough-high quality personnel if we had the GI bill that it would solve the recruiting problems that are faced by the services today.

I am pleased to report, by the way, that 19 Members of the Senate have joined in sponsoring the bill which is now pending before the Veterans Committee. We have had some expression of interest from others. We are hopeful that we will have some action on that bill at an early date.

Senator JEPSEN. That is a very interesting observation. You are saying that it is indeed necessary for the numbers as much as for the quality.

Senator ARMSTRONG. Exactly so. In fact others in the room are more knowledgeable than I am but it is my impression that is where the recruitment probably is. We are not short of just bodies. We are short of getting the well qualified people, upward mobile, college bound people who are willing to come in an give us a couple of years.

Senator JEPSEN. Senator Denton?

Senator DENTON. Thank you, Mr. Chairman. I would like to acknowledge the earnest efforts of Senators, especially the chairman, our colleague, Senator Cohen, and our witness, Senator Armstrong, in presenting constructive proposals with respect to Armed services pay and benefits.

I want to acknowledge that although I served in the Navy for a long time, I was never an expert on personnel or pay, and I do defer to the expertise of my colleagues in this room. I would like to ask Senator Armstrong, after stating my admiration for what he has done here as well as his previous work, what your reaction would be to the following alternative to what you have specifically proposed.

I say these things from my personal experience and perspective: I do not have enough pay, my men do not have enough pay although these fellows who are deliberating above me are profoundly important, I feel I would like to take my pay raise and run rather than work it out with some blue ribbon panel in the next few years. That is something I remember very clearly.

Is it your feeling that we could pass the 5.3 percent pay raise across the board now since we have momentum built up in the terms of expectation of a pay raise? I propose this not as a final solution. Then in October when it would be time for the cost-of-living raise, go ahead and grant that along with some of the targeted adjustments that you and others might bring up, and include them at that time?

I want to state my agreement on your feeling about more increases in BAS, BAQ, and PCS moves which both you and the chairman have addressed in previous hearings. I am amazed to learn that Federal employees and corporate employees receive fantastic allowances for moves and those in the service receive very humble allowances.

To hit the target roughly, would you object to a 5.3-percent pay raise across the board as soon as possible and then in October the cost of living raise incorporating some of these targeted adjustments?

Senator ARMSTRONG. I will say to my friend, you will probably never catch me objecting to any kind of pay raise for the military because frankly it seems to me that every grade is underpaid. So anything you do at this stage after the way pay rates have been depressed is to the good.

My judgment is that given the budgetary restraints that I think are likely to be obtained that it may not be entirely realistic that we can give 5.3 across the board now plus full cost-of-living raise in October and then on top of that put in some additional amounts to target either for MOS specialties or to solve the compression problem.

If that is within the bounds of what the committee might actually do, I certainly would not object to that, but I do think one way or another we need to address the compression question. My own feeling is that the cash incentives at the recruitment level are sufficient and that what we really need there is GI bill benefits.

We lose few general officers as a result of low pay. I am not aware that that happens very often, but where it is a critical problem is in the NCO's. I think we probably do need to have some targeting but I would defer to the committee as to when is the best time to write that target legislation that depends on how much money is available and what the schedule is. In general I could not object to that but whether it is practical, the committee would know better than I would.

Senator DENTON. Thank you, sir. This is not self-serving but your 50- to 200-percent difference in pay for equivalent private sector responsibility, I would have to say may be conservative. When you consider the responsibility of a captain out there steering a boat around, all those people on board and all those planes, and compare what the pay would be for the same kind of responsibility and authority, I think it would be up in the thousands percent. In many cases, in the flag and general ranks, that is true also.

You do not lose many of them because they are so enthused by that time with patriotism—inducement to service to their country—that they are not thinking in monetary terms.

Senator ARMSTRONG. I do not disagree with that for 1 minute. If the issue were responsibility and education and ultimate effect on the future of our country. I could not disagree with that for 1 minute. It is hard to say how officers of the kind you have described would be paid $30,000 or $35,000 and people in the private industry with comparable responsibility would be paid two, three, four times that much. There is no question that that is true. I do think, however, in terms of the retention problem that is not where the retention problem is, not to say that they do not deserve a raise.

Senator DENTON. Thank you, Mr. Chairman. I have to go to another meeting. I regret that I will have to depart.

Senator JEPSEN. Senator Cohen?

Senator COHEN. Thank you, Mr. Chairman. I do not want to delay our witness much longer other than to tell him I commend him for his efforts in the past. I was happy to join with him in the across-the-board pay raise that we were successful in passing in the last session and commend him for his statement.

I think that we have come far enough along the way to raise expectations that most people in the military are expecting the 5.3. I would want to support the across-the-board. When October comes, we are talking about 9.1. We could, in fact, split that up, with 4.8 for the board and 4.3 for targeting, having done what our various Secretaries or service chiefs would recommend.

I somehow get the feeling that there is a notion in the Congress that if we just pass 5.3, then that is the last change, this is it for the Volunteer Force, and we are not going to continue this kind of effort.

There is also the notion that we have finally caught up and that the All-Volunteer Force has been a failure from the very beginning. I do not happen to believe that. We started losing people in 1976. That was well after the Volunteer Force had started in 1972.

It came at the time Congress was participating in some of the cuts, the GI bill, advertising budgets, and so forth. We actually contributed to a decline in the ability of the All-Volunteer Force to work successfully. Somehow, we have come to the conclusion, "This is it; we can go forward. If it does not work, it is back to the draft."

I think that is a mistake in terms of approaching it that way. I think it would be useful, but we certainly are not going to achieve comparability with 5.3. They are still way behind. You may be right; there may not be the sentiment in October to give a significant pay raise. This is the reason why we ought to try to split it up.

This is something I know you have received many times, but I have received a letter from a constituent of mine who says:

> During my 6-plus years in the Navy, I have watched various perks and benefits steadily disappear that have always been associated with the service. I have watched my pay, which was set up to give service people rough equality with civilian jobs, be the political football to be kicked around and be the subject of pay raise "caps" in a token to cut spending. Meanwhile welfare and other social programs have mushroomed.

He talks about when he was forced to move:

> When my submarine was ordered to Portsmouth Naval Shipyard in Maine for overhaul, everyone had to relocate in the area from Charleston, S.C. Taking myself as an example, I was given 1 month's quarters allowance and 7 cents a mile for my wife to defray moving expenses.
>
> My 1-year-old son who needed baby food and formula on the road would not receive an allowance until he was 3. At the time, service members got 10 cents a mile to relocate. My shipmates and I were not allowed this time per mile because "we were to ride the boat to the yards," implying that there was no cost in moving married sailors on the boat.
>
> The end result of this was sailing the boat to the yards, flying home to pack up and collect our families, and then driving from Charleston, S.C., to Maine for a total reimbursement of $285. It did not even buy the airline ticket. Personally, it wiped out our savings account.
>
> For manys others, it forced them further into debt. None of us have any hope of compensation. When we arrived, no Government housing was available, as is always the case. A short waiting list is considered less than 1 year.
>
> We have to live "on the economy" with our quarters allowance coming to about one-half of what we had to pay in rent and utilities.

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I think it is important to point this out over and over again, that we cannot simply devise a pay raise scheme to deal with all the problems which are multidimensional. You may need increased pay to attract people in the Army, but you have different needs, as far as the Air Force and the Navy are concerned.

I reject the notion that, somehow, we have the 5.3 that brings us up to square one and we are all even now; it will either rise or sink on its own here. I do not accept that. I think your recommendation is very sound.

Senator ARMSTRONG. Mr. Chairman, may I respond briefly to the Senator from Maine? First of all, and I am sure the committee is aware of this, the reason the Senator from Maine is likely to receive a letter such as the one he has read is, first of all, because the problem is real, and second, because it is well known that there are few Senators, if any, who have his understanding and insight in military personnel problems and who has been willing to speak out as forcefully and courageously as he has done.

I congratulate him as I have privately in the past. I want on this occasion to say his willingness to carry forward that battle has made a great difference.

Second, I totally agree with the idea he has expressed that a 5.3-percent pay raise does not make the military personnel whole. That does not bring him up-to-date with inflation. In my prepared remarks, I have tried to indicate that. There may be, Mr. Chairman, also a bit of misunderstanding or I may have misspoken myself in response to the Senator from Alabama.

I was not suggesting that there would not be a willingness to adopt the full cost-of-living pay increase this fall. I certainly hope that will be adopted. What I was raising doubt about was whether or not there would be sentiment to put across the 5.3 and on top of that additional amount necessary to target.

I think such additional amounts are justified. I have suggested in my prepared statement a program of catch-up pay raises such as over the next several years so that even if we do not grant everything now fits in the recruitment area from that commitment.

Senator JEPSEN. Senator Nunn?

Senator NUNN. Mr. Chairman, I am a great admirer of the leadership of Senator Armstrong in this field. I am sorry I did not hear his testimony. I will read his testimony. I just thank him for being here.

Senator ARMSTRONG. Thank you.

Senator JEPSEN. Senator Exon?

Senator EXON. I, too, apologize. I was on the floor on the budget resolution. You and I are both members of the Budget Committee. I will read your whole testimony.

I would like to ask this before you leave. I had a briefing from staff on what you said. I know of your concern which I share for balancing the Federal budget and we have battled that out, usually on the same side, more or less. We have also been very strong on improvement of the military.

This particular subcommittee, of course, has some rather serious responsibilities, I feel, because we can have all the weaponry we want in the future. But we do not have the manpower to get that job done, then whether an M–1 tank costs $500,000 to $3 million per copy, they are not going to be very effective.

So manpower is critically important. I, like Senator Nunn, have been very much interested in your views. I would like to shoot something at you offhand to see if you have thought of anything like this.

You are familiar with the fact that the administration had asked for the midyear pay increase on July 1 of 5.3 percent. You are also familiar, I am sure that the House has said no to that and there seems to be some waning support for that special increase in July. The mood seems to be to wait until October.

It was my suggestion, not in the form of a bill, to this committee and in a speech I made on the floor, that rather than an across-the-board approach we should begin to target this problem which I think we have with senior non coms and petty officers.

There are shortages of thousands of petty officers, as you know, with regard to the Navy and we are going to go about building a 600-ship Navy. And we do not know where the people are going to come from to man them—which means, in my opinion, that we will have to attract some people retired from the Navy back in.

I introduced a bill yesterday that I would just like to brief you on and get your offhand opinion of it. The bill simply said that we would pass up any kind of pay increase in July, go ahead with the pay increase in October, which would be an across-the-board increase based on the recommendations of the panel that has the responsibility of making the recommendation to the President.

Whether that will be 8, 9, 10, 11, 12, 13, or 14 percent, my bill says whatever that is we give that across-the-board to everyone. But on top of that, we target pay increases to the E–4 through the E–9 pay grade to try and build more stability for that group, which I think is critical to our future training of manpower and the efficiency of our overall forces.

Have you ever done any studies or had any thoughts along these general lines, and what is your offhand feeling about the suggestion I have just outlined?

Senator ARMSTRONG. Mr. Chairman, I would say to the Senator from Nebraska that I do in general endorse the concept of target. In fact my own thinking on that has been influenced a great deal over the last several months by the recommendations and perceptions of the chairman and Senator Nunn and of your thoughts, which do not come to me today offhand, but I was well aware of your interest in targeting.

I do not think I would approach it in exactly the way you have suggested. First, because I think we have promised the troops in the field a pay raise in July. The administration has pointed out for us that to take it away from them would create a very, very bad situation.

I am aware some people in the House are talking about that. I think that would be a mistake. I do think we ought to have some targeting. I would leave it to the committee as to how that ought to be phased in.

My thought was that perhaps the midyear pay increase could incorporate something for all grades but a portion of it be targeted.

I noted that in last year's military procurement bill, at the suggestion of Senator Tower, there was a provision for redistribution among pay grades of up to 25 percent of the cost-of-living increases.

Something like that would make a good deal of sense to me. I think the long-range permanent question really is the issue that the Senator from Maine has raised, that is not the last catch up. I personally do not view this midyear pay raise as something special or as some kind of boon or Christmas gift in July. I view that as part of the pay raise that the troops should have had back in 1974 and 1975. When we get that, then I think we ought to start pressing for what I think they should have had in 1966 and 1967, because in many cases the rate of pay of military personnel, even granting the pay raise we were able to get last year, is well behind what it should have been and what it would have been if pay had been kept comparable over the last 6 or 7 years. That is a long answer to a short question.

Senator NUNN. Mr. Chairman, may I ask one question here?

Senator JEPSEN. Senator Nunn?

Senator NUNN. Have you done anything about special pay for special skills as opposed to, say, all E–5's making the same pay with the bonus system?

What I am very much concerned about is that what we really have is not a manpower shortage in the active forces but a critical skill shortage more than anything else. In the Reserve Forces it is different. It is both quantity and skill.

In a technical age, where you have sophisticated equipment, computers, all sorts of complicated radar, you have hugh demands on the outside for people who are skilled in these areas. One particular individual is a computer repairman, who makes substantially less than that and could make $35,000 a year on the outside.

Another individual who is an E–5, same rank and so forth, his job is a low-skill job where he is making $17,000, and on the outside he could probably make that much or less, maybe $15,000. Yet when we try to raise the pay enough to retain that fellow who is making $17,000 and on the outside can make $35,000, when we try to get him up to the competitive level, whether it is $28,000, $30,000, $32,000, $35,000 we are also raising everybody else who is E–5 the same amount.

I am wondering how far down the road we can go with this kind of theory. If we are going to operate the military like a business, and that is the way the pay packages are going, and that is the way the Volunteer Force is based, how can we afford to continue a system that everybody in the same rank makes the same thing—that is my question—when they have such totally different skills? Have you done anything along that line yet?

Senator ARMSTRONG. Yes, sir, I have thought about that at length and very deeply. I do not have the answer but it probably is a real one. I note that in private industry, since you relate to that, that there is an emerging trend that the specialist may well earn pay far above the people that they work for.

For example, many companies' top scientists are paid more than managers, in some cases even more than the President of the company. In the oil industry there has been the emergence of million dollar geologists where they are paid enormous salaries and then given a percentage of the strikes.

In some cases out in my own State we have geologists who have made $1, $2, $3 million in short periods of time. I am not sure how

that same principle could be applied to the military but it probably is a real one both in the private and public sector.

Senator NUNN. You are in effect recognizing that probably the recommendation is, as I read your testimony, to shy away from across-the-board and go more toward targeted?

Senator ARMSTRONG. I am really recognizing more the pay compression problem because the amount of targeting that is possible when the dollars we are discussing today are not sufficient to address the question you have raised. I see that as related but somewhat separate.

Senator NUNN. I agree. It is not completely parallel. I want to congratulate you on your statement. I have read it. I particularly like the part where you say we are kidding ourselves if we think we can buy a military force with money.

You cannot buy patriotism and buy sacrifice with money and at the same time we need to recognize that we do not want to give disincentives to people who otherwise would be in the service, otherwise would be willing to sacrifice.

We do not want to make the sacrifice such that we discourage those kinds of people.

Senator JEPSEN. Senator Quayle?

Senator QUAYLE. Thank you, Mr. Chairman. I want to congratulate and commend the Senator from Colorado on his leadership in this matter. As usual, he is very factual in leading us in the direction we should have been going. I appreciate your interest in this and hope you will work with us and give us the benefit of your talents as we try to develop this number that we have talked about, this targeted pay.

Nobody has the answer. If we had the answer, we would accept it. We have to move in that direction. If you will continue to give us the benefit of your expert advice and talent, we would appreciate it, and we would all benefit. Thank you.

Senator ARMSTRONG. Thank you.

Senator JEPSEN. Thank you, Senator Armstrong.

Senator ARMSTRONG. Thank you, Mr. Chairman.

Senator JEPSEN. Dr. Korb, in order to make the rescheduled hearing has flown all night from Hawaii in order to testify.

Senator NUNN. I had a lot of confidence in Dr. Korb's judgment when I heard that, but anyone who would leave Hawaii to testify today does raise certain questions.

Senator JEPSEN. You may proceed with that introduction.

STATEMENT OF DR. LAWRENCE J. KORB, ASSISTANT SECRETARY OF DEFENSE

Dr. KORB. I appreciate the opportunity to appear before you today, in my first testimony since confirmation, to address the issue of an across-the-board 5.3-percent pay raise for our military personnel on July 1, 1981—a raise that is essential to sustain the readiness of the military services.

Since I know that all of us here today are committed to improving the readiness of our Armed Forces and since we are aware that people

are the key to readiness, I wish to discuss how important this raise is for our personnel.

In my view these reasons may be placed into two broad but related categories—one symbolic and the other related to recruitment and retention.

A SIGNAL TO THE TROOPS TO RAISE MORALE AND SELF-IMAGE

The 5.5-percent pay raise will demonstrate in a convincing manner, to the men and women of the armed services, that this administration cares and is committed to work with the Congress in making up for a decade of neglect of their needs.

If we seem uncertain at this juncture, we will lose the momentum we have fostered so carefully over the last several months. Confidence in our ability to deliver and in our concern for the needs of the troops will evaporate, and we will find ourselves back to dealing with a frustrated force that will sincerely believe that things are no different now than they were in the last couple of years.

My message to you today is plain. We must raise the morale and the self-image of the military. The concept of treating those who sacrifice so much for us as second class citizens must be put behind us.

This raise is a matter of equity and not an attempt to deal with specific problems. A 5.3-percent pay raise will help to restore military compensation to the level we committed ourselves to when we created the AVF.

Targeting the raise is not the answer. The purpose of targeting is to deal with specific needs and problems. More targeting will simply raise the frustration level of the "have nots" who will perceive that they have been left out in the cold.

My point is that although significant improvements have been made to the overall military compensation situation by the Congress last year, these actions are perceived by our service-members in a different way than perhaps you and I view them.

For example, as we look at the entire spectrum of military compensation, as you and we must do, we might tend to be satisfied with our achievements or at least our progress. The individual member, however, understandably tends to relate compensation improvement to his or her own personal circumstances.

I would like to underscore the fact that most of our people do not receive any special incentive pay. Sixty-eight percent of all service members do not receive the widely publicized Variable Housing Allowance (VHA). Only 19 percent of all Navy men receive the newly restructured sea pay. About 7 percent of new recruits receive an enlistment bonus.

On the other hand an across the board increase in basic pay reaches every member. Do not get me wrong, I believe that we should continue to analyze the individual grades, skills, and specialties and look at special circumstances to determine where reallocation or targeting of compensation might be appropriate.

However, I believe we must weigh these decisions very carefully. There are intangibles arising from the nature of the military profession that are difficult or even impossible to quantify that must be taken into account.

Simply stated the Congress and the administration must use good judgment. We should avoid actions which could be construed as leading to a military establishment manned by various elite groups with the remainder being second class citizens.

We must prevent the erosion of the concept of unit cohesion and the rise of the notion that the military is just another job. Any group of servicemembers, large or small, that does not share in this return to promised comparability is going to draw certain conclusions concerning the desirability for continued service.

Even if these people do not leave, the impact on unit cohesion and the notion of the service is bound to be traumatic.

RECRUITMENT AND RETENTION

We are now embarked upon a long overdue modernization in hardware that will expand our force structure to a more appropriate size. There is no doubt that this program will put some strain upon our capability to provide supporting manpower.

Specifically, we expect military end strengths to increase substantially over the next few years. We can take a big step toward meeting the manpower needs growing out of this expansion by dealing with the problem of pay adequacy now.

The 5.3-percent pay raise will mean an additional 40,000–50,000 people in our career force by fiscal year 1987. In the short term, that is by the end of next year, an across-the-board 5.3 percent pay raise could add 10,000–15,000. We need these people badly.

The Army could have severe problems in recruiting by 1983 even with improved pay. Our estimate indicates that if the Army's force structure expands as planned and the propensity of young men to join the Army remains unchanged, the Army could fall as much as 28,000 short of their goal in fiscal year 1983.

This situation could be complicated even more by recently imposed congressional constraints on the recruitment of mental category IV and non-high-school graduates. If the international situation requires that force sizes be increased anything over current plans, the manpower picture could become even more serious without the pay raise.

Fortunately control of the situation I have described is within our grasp if we take the correct actions now. Let us not repeat the the mistakes of the past. At the present time the state of the economy masks the complete nature of the situation. Many of our career people are on the fence waiting to see which way the situation will move before making their reenlistment decision.

On the recruiting side, youth unemployment has been extremely high. In the next few years things will turn around and prospects in the civilian sector will begin to outweigh the economic advantages of a military career.

We need to prepare for the economic turn around now. If we wait until retention and recruiting shortfalls develop to begin action, we may never catch up. Let me illustrate.

If today because of our actions here, an inordinate number of sailors get out of the Navy, it will show up on some Navy analyst's

statistics a couple of months from now. After 2 or 3 consecutive months of receiving such data, the analyst will alert his admiral.

A couple of months later, when the admiral is sure, he will alert the OSD staff and so on. Finally, after OSD, OMB, and congressional staffs are all convinced, we try to do something sbout the shortfall.

By that time we may be 12 to 18 months into a serious and growing problem. We need to act now before we find ourselves in the 1979 and 1980 situation again. It is imprudent to wait. The costs of retraining people to replace those who leave will far outweigh the price of the 5.3-percent-pay raise. We must move now.

In conclusion, we are, in my view, at a critical juncture in regard to manpower. Because of actions taken by the 96th Congress and this administration, we have for the first time created a situation in which the All-Volunteer Force has a reasonable chance of succeeding.

But we cannot rest on our laurels. In order to provide the manpower in the quality and quantity we need to continue to sustain our worldwide military commitments, we need to continue to improve the terms and conditions of employment for our people so that they will be generally comparable to those of their peers in the private sector.

An across-the-board 5.3-percent pay raise, effective July 1, 1981, would do that. Moreover, it would lay the groundwork for insuring our future manpower requirements are adequately met.

I urge you to support an across-the-board 5.3-percent-pay raise on July 1, 1981, not because our people are expecting it, but because we owe it to them to make up for nearly a decade of neglect.

Mr. Chairman, that concludes my prepared statement. I would be happy to answer any questions you might have on this or related subjects.

Senator COHEN. Thank you, Mr. Chairman.

We should take judicial notice that the Hawaiian Sun's rays did not escape while you were there.

Dr. KORB. I was there for 36 hours, so they must have been very strong.

Senator COHEN. It seems apparent. I would join Senator Nunn in his suggestion that perhaps we should examine how you happened to catch that red eye to get back here on such short notice.

Dr. Korb, what is your assessment of the proposal that is now before the Manpower Subcommittee in the House to defer the 5.3 and go to a 14.1 across-the-board pay hike in October? This would be the substitute for the administration's request for 5.3 now and in October. What difference do you think this would make in the way of retention and recruitment?

Dr. KORB. A couple of things. First of all, we have our models, which predict and tell us we could lose a couple of thousand people and we might experience more difficulty in recruiting certainly high category people. It doesn't measure the intangible and the signal. That is why in the first part of my statement I mentioned the signal. It is not just the size of this raise, it is the timing.

In my time, this is the first time we have given a sizable raise. This is a symbol to the service people that both the Congress and this administration are concerned and do understand some of the problems illuminated by Senator Armstrong in his testimony. I think it is vitally important that the specialness of this not be lost and I think

if the House proposal were to become law, some of that would be lost.

I think the service person might look at 14.3 and say, "Well, the CPI may have gone up that much. As far as I am concerned it is not really anything special."

Senator COHEN. Let me volunteer my own thoughts on this. It seems to me that we will be hard pressed, come October, to secure a 14.3 percent across-the-board pay hike at that time since we are about to put a cap of 4.8, as I recall, on the civilian sector. Such an across-the-board pay hike might be somewhat less enthusiastically received, come October. What would be the effect at that point if we had, No. 1, no pay raise as expected in July and then a reduction, delay or deferment of the 14.3 in October? What impact would that have upon recruitment if there were such a modification in October after rejecting the 5.3?

Dr. KORB. I think then you would have a much more substantial impact. I think you are talking possibly in terms of short-falls of about 6,000 people. I think the key thing to remember is that these things keep building as you go on. If we lose 5,000 or 6,000 people it means we have to recruit 5,000 or 6,000 more people, we have to incur the added training cost and you could have a cumulative effect which would be with us certainly for the rest of the decade.

Senator COHEN. If I added to that, what would happen if, as reasonably expected, the administration's increase in enlistment bonus of $5,000 to $10,000 is not approved?

Dr. KORB. I think the impact would not necessarily be the numbers of people but the quality of the people that we would get. Remember that $10,000 is the maximum that we are asking that we can pay, and remember we have some discretion in that as to where we apply it. We are looking to get high school graduates primarily into the combat arms, and high school graduates in the highest mental categories.

I think we would suffer a shortfall of a couple of thousand without that particular bonus.

Senator COHEN. What about Senator Nunn's suggestion that I think will have to be dealt with, and ought to be, and one that Senator Armstrong touched upon? What if we had a 5.3-pay raise in July across-the-board and then went to the 9.1 and broke that down in October so that you still had an across-the-board increase for everyone, let us say, at the 4.8 level, and you took the balance which would be be equivalent of the civilian population, took the balance of 4.3 and started targeting that based upon skills rather than on grade, giving that discretion to the various services? Is that something that you would see yourself as supporting?

Dr. KORB. First of all the law says that we can allocate by pay grade, not by skills. To the extent that the current legislation stays in effect we would not have that particular authority. My own feeling is, and I so testified at my confirmation hearing, that it would be preferable to reallocate the raise in October for a number of reasons.

First of all we have more time to do it wisely and to make sure we got it to the proper people. It would also allow us to take a longer look at the whole situation and analyze the impact of last year's 11.7-percent-pay raise plus the bonus packages that we have come in for to make sure that we put it in the correct areas. I think it is important to keep

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in mind, and I can't emphasize this too strongly, that this 5.3-percent pay raise is not meant to deal with all the problems we are talking about. It is meant as a signal to the men and women of the armed services that the Congress and especially this administration understands what has happened to them over the past decade.

Senator COHEN. In other words, you would be willing to recommend in October as far as the 9.1 is concerned that some of that be targeted?

Dr. KORB. The Secretary of Defense has already indicated, yes, we would be willing to consider it in October, yes, sir.

Senator COHEN. What about the new GI bill proposal? What sort of education incentive do you think you will be recommending in fiscal 1982, after the test package that is now in effect has expired?

Dr. KORB. I would like to correct one thing that came out in the testimony between Senator Armstrong and the committee. The $100 million is not just for the testing. That also includes paying the benefits to the people as the educational incentive. What we are in the process of doing right now is conducting the test and collecting the test data that was mandated by this committee and the Congress to make sure that we create a GI bill that does not create more problems than we now have.

We do not want a bill, for example, that drives out the people that we want to keep in. That is why we are looking at the various types of benefits that we are testing. We want to go very carefully because it seems to me we could wind up with the worst of all possible worlds. We could have a bill that would cost $2½ to $3 billion a year in steady state but that would make it more difficult to retain the people that we need to retain.

Senator COHEN. Would it be fair to say that in view of this committee's action, and I believe it is supported by the Congress, to reduce the number of category IV's that the services can have and the limitation on the number of non-high-school graduates, if you take those new requirements, which would have an added burden certainly on the recruitment of individual services, if you would then not approve the 5.3 increase it would be a very negative and deleterious impact upon achieving the end strength?

Dr. KORB. I think if those constraints are approved by the Congress as recommended by the committee, yes, it would make it more difficult for us to live within those constraints.

Senator JEPSEN. Senator Exon?

Senator EXON. Thank you very much, Dr. Korb. I know that we have joked with you a little bit but we are appreciative of the fact that you made a special effort to be here today.

Dr. KORB. Senator, this is probably the most important issue I believe before the Congress and the administration at this time. I am happy for the opportunity to be here.

Senator EXON. Dr. Korb, for the record I would like to clarify the fact that this 9.1-percent-pay increase projected for October, which is now estimated to be across-the-board, is not locked in concrete. If I understand it correctly that is what the President estimated would be necessary to keep up with the cost of living at that time and that 9.1 could be 9.5, it could be 10.3, it could be 12, it could be higher. Am I accurate in that?

Dr. KORB. Yes. The pay agent has to report to the President as to what is happening in the private sector. On the basis of that the

President makes a determination. The 9.1 percent actually was put in by the outgoing Carter administration as the best estimate of what the pay agent is likely to report.

Senator EXON. Do you have any view, yourself, as to what that might be? It is probably going to be higher than 9.1, is it not?

Dr. KORB. It is very difficult to say because the survey not only looks at inflation but it looks as to what happens in the private sector. We have to wait to see what the wage settlements are in certain industries. It is very difficult at this time to get a feel for it.

Senator EXON. One of the things which I think some of us are somewhat concerned about is the repeated statement that if we don't go along with what has been recommended by the administration we are going to cause great havoc with the morale of the troops. I think that does concern us. The problem is that I think we have to be awfully careful that when the administration, this or any other administration, merely proposes something, the Congress should not be placed in a box that if we don't go along, you are going to cause problems among the troops.

I would say that while that might be factual, I am not sure it is the best way for the administration to comment or give an excuse as to what the Congress might or might not do.

Dr. KORB. I could not agree with you more, Senator. I mentioned in my testimony that it is not because it is expected but because I think it is the right thing to do. It is rather unfortunate the way our democratic system works, that when the administration proposes it gets into the public domain and the people, the media, especially with service ties, will be aware of that and let the troops know about it.

I understand the position that puts the Congress in. We are not arguing that, though certainly we must, both of us in working together, consider that impact because we want the same things, we want to keep the high quality people in the service. If this administration, myself, or people in the Department of Defense have given you that indication we certainly should not because it is certainly improper.

Senator EXON. Let us go at this matter a little bit that Senator Nunn brought up and Senator Cohen has just mentioned with regard to what we are going to do to keep these specialists in. I think we all recognize that at least in certain places in the armed services today, we are not attracting the right number of engineers and other specialists. We even have some people come forth from the administration recommending that we set up a bonus of $10,000 for some specialists and I asked what that might be and they said that might even be infantry enlistees. It was rather shocking to think that we have to go to a system where we might have to pay an 18-year-old $10,000 to go in the infantry. Are you familiar with that kind of thinking and if so do you agree with it?

Dr. KORB. I certainly am familiar with it since we have proposed that we be given the authority to pay up to $10,000 in enlistment bonuses to certain critical skills. One of them is infantry. Let me make a couple of points on that.

I know that the $10,000 figure that could be paid to certain high quality people in the combat arms may seem to be inappropriate but I don't believe so. Remember, somebody who joins the combat

arms does not have a transferable skill. We are asking that individual to come in, not all of whom will stay in, and we are not giving him anything that he can take out in the private sector. Whereas if we have somebody come in, particularly in the Navy or Air Force, they receive the equivalent of $80,000 or $90,000, maybe $100,000, worth of training, so they can go out and they do have a marketable skill.

If you look at it in that sense the $10,000 is not inappropriate. We have been paying bonuses since the establishment of the All-Volunteer Force, starting out at $3,000 and going to $5,000. Now we are asking for authority to move up to $10,000 which if you look at it over the past decade is not a tremendous increase although there is a real increase there. What we are asking these people to do is come in and really bear the brunt. We are talking about the infantry people, the people who will do the fighting and yet have no transferable skills. If you look at it in that context, in my view, the $10,000 does not seem untoward or inappropriate.

Senator EXON. Or you could look at it from another view and say that is a reason for return to the draft.

Dr. KORB. Again I don't share that particular view, Senator, that that in itself would be a reason to return to conscription. If in fact we were to return to conscription we would have those people for less time. If we went to conscription and we conscripted people for 2 years, the training cost would outweigh this particular bonus because we are giving $10,000 to someone who joins for 4 years.

If you look at it in that sense we would not save any money by turning to conscription.

Senator EXON. Of course my concern here is, and I know it would not be everybody who goes in, but if you start giving $10,000 bonuses to an 18 year old to join the service, an infantry fighting solider, I think you have to give it to everybody, would you not?

Dr. KORB. No, sir, because a lot of other people are joining for some of the reasons that Senator Armstrong mentioned, to get the training in other skills, like computer programers, electronic technicians. It makes it attractive for them to join. If that becomes a reason for them to come in we hope by treating them correctly and fairly that the number we need will stay in. I think it is important to keep in mind, as I mentioned in my prepared testimony, we pay this to a very small percentage of people. I don't want this committee to get the idea that everybody who joins gets $10,000. The $10,000 is the upper limit of a range of bonus payments. The bonus level will vary by length of enlistment and difficulty of recruiting for various skills. Even under the most difficult recruiting environment, we expect the average bonus payment to be in the $5,000, to $6,000 range.

Senator EXON. I wish you would expand a little bit fuller. If I were younger I could join the service and I would not get anything, for example, if I went in the Air Force and trained to be a technician. But if I went over to the Army and joined up as an infantry soldier under my options I would get $10,000 is that right?

Dr. KORB. You could get $10,000, yes sir, if there were not enough other people who had joined in a particular year in the particular mental categories we are trying to attract.

Senator EXON. It seems that it would be very difficult to be selective. You talk about morale of the troops. I can see how I would feel if I went into the infantry and a month later you brought some other 18 year old along and you gave him $10,000 and we are in the same foxhole. Isn't that a morale problem?

Dr. KORB. It could be. If you are making comparison with the person who joins the Air Force or Navy they in effect would be receiving the training that we are talking about which in effect would be worth more than the $10,000. Most of the people in the foxhole would be getting this particular bonus because it goes primarily to the combat arms.

Senator EXON. I have more questions for the second round, Mr. Chairman, but I will be glad to yield.

Senator NUNN. Could I follow up with one brief question on Senator Exon's question?

If the theory is that people going into the combat arms get a bonus, what do we do if war breaks out? What kind of bonus will we pay them to go to war?

Dr. KORB. Again it would depend on the nature of the war, how many people we needed. We now have a force of about 2 million active people, some 800,000 people in the Reserve. If we went to war and we could not meet it with those people, then obviously we would have to look to activating the Selective Service System.

Senator NUNN. Would your first step be to pay additional bonuses in case of war?

Dr. KORB. I would not believe that you would. I think in a time of war where there was a clear and present danger, people's sense of patriotism would take over at that particular time as it always has in the past.

Senator NUNN. Thank you.

Senator JEPSEN. Senator Quayle?

Senator QUAYLE. Thank you, Mr Chairman.

You are proposing to have 5.3 percent across the board in July. Did you say you would be willing to break out that 9.1 percent October pay raise to go along with the 4.8 percent civilian, and target the 4.3 percent.

Dr. KORB. What I indicated was that the Secretary of Defense has the authority in October but not in July, because of the way the law is written, to reallocate that raise among the pay grades provided it is a plus or minus 25 percent. Yes, we are quite willing to take a look at that particular raise and put it where we think it would be most appropriate, and the Secretary has told me that we will take a look at that. We can't make a definite commitment now because it depends on a lot of other circumstances, where our recruiting and retention shortfalls are.

We also feel that is the appropriate time to do it, in October after we have had months to assess the particular situation.

Senator COHEN. If you will yield, if there is a perception or strong commitment on the part of the Senate or House to move in that direction, would that make you take a closer look?

Dr. KORB. Certainly. I think I can speak for the Secretary, because we have spoken about this, that we are actively studying it. What I don't want to do is commit the Secretary to a situation where the

situation may change. I think in all candor I would say yes, we are taking a look because we are concerned about the compression problem which has been indicated here today.

Senator QUAYLE. If you take a look, and if people like Senator Cohen keep the pressure on, what kind of circumstances would it take for you to not proceed in the direction of targeted pay? What kind of changes would have to be brought about?

Dr. KORB. Where you would put it would depend on your recruiting and retention statistics because you would want to at that particular time deal with the most critical problems that you have. I can't foresee the circumstances. For example, we could have a tremendous recruiting shortfall and therefore we would not want to hold down the pay of relatively junior enlisted people. These are the things I am talking about. I think I can say we understand the compression problem and we feel that October is the appropriate time to target and we do intend to use that authority as the situation stands right now.

Senator QUAYLE. With respect to the whole manpower situation, what are the critical areas? What is our primary problem—petty officers or sergeants? What is the most critical area right now, and what should we be directing our attention to in this asset aspect?

Dr. KORB. In terms of the people, particular pay grades of people, it is in the noncommissioned and petty officer grades that we have the shortfall as Senator Nunn indicated in particular specialities. It is not a quantity problem; it is a quality problem. But the main manpower problem is what a lot of people refer to as quality of life. It is not just pay. It is the facilities in which our people live, the schools we provide for them, the care we take of their dependents, the fact that when they move they don't lose money out of pocket, as Senator Cohen was indicating in reading a letter from his constituent, the fact that the American people appreciate the sacrificies they make. The most critical thing, looking at the military as a whole, is this thing that we call quality of life, the feeling on the part of the Army soldier, for example, in Baumholder that people back here really care and understand his particular problem and are moving to do something about it.

Two weeks ago I was in Europe. I spent a lot of time at out of the way bases like Baumholder and Bittsburg. In Baumholder I met with a group of company commanders and the captain said to me, "The nicest thing was that you just came here because most people don't come here when they visit and it shows us that you care."

I think this is really a critical thing that we must communicate to the men and women of the Armed Services that the Congress and the administration do care about them and want to take care of the quality of life.

For example, one of the things we have in our budget this year is $32 million to upgrade DOD schools overseas. That is important because a NCO or an officer does not want to go to Europe and take his children out of a school here in Fairfax County, for example, which is above average, and put them into a school which may not prepare his children for college. Those are the things that are critical. I think the pay raise last year and the Nunn-Warner amendment were tremendous in terms of the message they communicated. I don't think the troops understand 5.3, 5.2, 5.8 or whatever we are talking about. It is the mood that has been communicated that we care and we have to continue that momentum.

We just can't rest on our laurels.

Senator QUAYLE. Are they going to stay in the Defense Department and not going to the Department of Education? Has that been worked out?

Dr. KORB. That is right. We are preparing legislation to accomplish that.

Senator QUAYLE. I hope we get concurrence of the Congress too.

If you say the noncommissioned officer and petty officers are the ones in the most critical areas wouldn't you agree we need to give that some sort of special attention, maybe targeted pay, to look out for these areas?

Dr. KORB. I think it is important to keep in mind that we do that. That is why we have our enlisted bonuses and proficiency pay. Something has been lost in the dialogue between the administration and Congress when we talk of pay. We came in for a tremendous amount of increases in our bonus packages. If you put the bonus, for example, along with the base pay this individual gets, that is how we are dealing with it.

We are paying these people more. For example, we requested from the Congress the authority basically to double our reenlistment bonuses. Last year the Congress gave us the authority to pay the bonuses to people on their third and fourth reenlistments. Proficiency pay is another way we deal with it. What we are asking for is to pay all the men and women of the Armed Forces a decent base pay and deal on a selective basis with the recruiting and retention shortfall using the authority and the funds you have given to us. I believe if the Congress approves our request, not just for base pay but for the bonuses, that we will have the capability to do that.

Senator QUAYLE. Base pay and bonuses. What about the actual targeted pay that everybody had been talking about?

Dr. KORB. The targeted pay adjunct to that may be able to deal with that somewhat. Remember, the targeting can not go to critical specialists as the law stands now. The targeting goes to everybody. For example, all E-6's whether or not you have a shortage will be targeted. You cannot target it right now under legislation to E-6 electronic technicians.

Senator QUAYLE. Would it be advisable to do that?

Dr. KORB. At the present time I don't think that we need it because we do have bonus authority to deal with that. We don't want to have a position that Senator Exon recommended where you have different E-6's with different base pays. I am content with the situation we have now. We are asking for authority to pay higher enlistment bonuses.

Senator EXON. Did you say Senator Exon wanted different E-6's to get different pays?

Dr. KORB. No; I said the problem you alluded to before. I said I agree with you we don't want the people to have the difference.

Senator QUAYLE. Thank you, Mr. Chairman.

Senator JEPSEN. Senator Nunn?

Senator NUNN. Dr. Korb, on variable housing allowance you mentioned in your statement 68 percent of all servicemen do not receive the widely publicized variable housing allowance. How many defense locations qualify for the variable housing allowance and what percent is that of all locations in the United States?

Dr. KORB. Basically, 90-odd percentile.

Senator NUNN. My understanding is 98. Do you have figures of about how much the VHA will cost for fiscal 1981 or 1982?

Dr. KORB. I can check them. I don't have them off hand.

Senator NUNN. Does $800 million sound about right?

Dr. KORB. That sounds right.

Senator NUNN. Could you furnish it for the record?

Dr. KORB. Certainly, I will be happy to.

[The information follows:]

VHA COST FOR FISCAL YEAR 1981 AND 1982

We have budgeted $657 million for VHA for fiscal year 1981 and $678 million for fiscal year 1982.

Senator NUNN. Of the 68 percent that you say don't receive the variable housing allowance, what is the number of personnel in Government furnished housing?

Dr. KORB. I think the majority of those who don't are in Government housing.

Senator NUNN. What percent of those living off base receive the variable housing allowance?

Dr. KORB. I think it would be in the 90 percentile. I would say the 98 percent figure. My point on that was not that people living off base are not receiving VHA but that a lot of service people don't and that when we talk about the improvement in VHA, and I certainly commend you for your efforts in that area last year, I think it was probably one of the more significant things done in compensation, but we must understand some people don't get that because they live on base.

Senator NUNN. These are people who don't have a housing problem because most of those who don't get it are those who already receive Government housing?

Dr. KORB. That is right. I agree with you.

Senator NUNN. It sounds as if the 68 percent that don't get it are being in some way penalized.

Dr. KORB. I did not mean to indicate that. I think I said they may not look at the situation the way we did and I gave some examples on that. It was not my intention to indicate that 68 percent were not eligible.

Senator NUNN. In your statement you say that "A 5.3 percent pay raise will restore military compensation to the level we committed ourselves to when we created the AVF." Further on you say a 5.3 percent across the board pay raise is needed because we owe it to them to make up for a decade of neglect. In 1972 according to my figures under the regular military compensation fund the recruit received $5,116. This follows an increase of 4 percent in November 1971 and 6 percent again in January 1971. Since then the cost of living has increased by about 111 percent.

Is that generally correct?

Dr. KORB. That sounds correct to me.

Senator NUNN. The thing that is never talked about, and I think this has to be put in our overall thinking on across the board versus some other approach, is that the recruit who was making $5,116 in 1972 is no longer a new recruit. He has now been in the service 9 years, is that correct?

Dr. KORB. That is right.

Senator NUNN. The staff has calculated that that new recruit's regular military compensation today would be $16,620, which is really an increase of 225 percent which is something like two times the cost of living index.

Dr. KORB. For that individual who has progressed, that is correct.

Senator NUNN. This is what I think distorts a lot of discussion about pay, that it does not take into account that you are not talking about individuals in most cases that have fallen behind. You are talking about slots that have fallen behind. The way it is presented and particularly the way it is picked up in military circles most, people when they read it over and over again think, "My goodness, I am an individual who has gotten behind on my cost of living," when in fact military people, except for a few categories, and those are few I think, some of the few we have a lot of trouble with, have really indeed got in front of the cost of living.

Dr. KORB. Let me say a couple of things about that, Senator. I think that certain grades have not made out as well. I have seen some analysis that shows somebody who joined who was a captain back then and has been promoted to major over the past years has actually got a decline in purchasing power.

Senator NUNN. What category would you say back then who have lost purchasing power?

Dr. KORB. I said if you take a look at a captain who has moved up to a major in that particular time he would have lost some of his purchasing power.

Senator NUNN. According to my figures I have here, a captain in 1972 would have made $15,272; in 1981, $37,796, which is a 147-percent increase, which again is above the cost-of-living increase.

Dr. KORB. Could I check something here for a second?

Senator NUNN. Certainly. That is RMC, regular military compensation. The person who would have suffered would have been a colonel, O–6, in 1972. His change would have been a 105-percent increase which means that that individual would have indeed lost 6 or 7 percentage points in what we call RMC. I sort of led the way with others on this committee primarily to try to correct the military pay situation and to improve retention and to give the Volunteer Force a chance to work although everyone knows I don't think it has.

The thing is that I don't believe there is enough money in the world to convince the military people that they are being adequately paid as long as the people who are in charge keep telling them how destitute they are and how much they have gotten behind the cost of living. I don't think there is enough money anywhere to do that. If I read in the Army Times and Navy Times every day how much I have gotten behind in the cost of living, I would think because everybody in the country is hurting now, everybody is suffering with inflation and so forth, that the military is no exception. The kind of statements that are being tossed around, the food stamp statement where people in the Department of Defense are still saying 250,000 are eligible for food stamps when DOD's own figures show that is absolutely not correct, all of these things are so negative that they are causing a psychological effect I think and although I am delighted we were able to do as much as we were able to do last year,

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if we are going to get the economy under control, as President Reagan is serious about doing something about inflation and the budget, you are not going to have any 1980 pay bill, even of 2 or 3 percent.

You just can't have that kind of massive infusion every 2 or 3 years unless we are going to end up with most of the military budget, 70 or 80 percent of it, being in pay and benefits.

Dr. KORB. To put some of the things in perspective the 11.7 percent pay raise last October was 2.6 over and above what all other government workers got and 2.6 percent over what President Carter had decided based on the pay agent's recommendation. In a certain sense it was not a massive raise. It was the first real increase in military compensation across the board in a number of years. Also, the caps that had been put on in effect kept it from keeping up with inflation.

Senator NUNN. You kept those slots from keeping up with inflation, not the individuals.

Dr. KORB. I understand that. I think most people would infer that as a person goes along in his career and takes on more and more responsibilities we would expect his pay to go up.

Senator NUNN. I agree with that. I do not in any way begrudge those increases, I think they were needed. I think it also needs to be said what has happened. I think the picture has gotten very distorted. I just want to read into the record, and you can comment on this, what an Army major is writing, Major Rahansky. He says and I quote, and this is a recent article in the National Review:

> There is a widespread misconception abroad in the land now is not the time, with the rest of the country facing an enormous difficulty, to make the military look like a greedy pack of privileged characters feeding at the public trough like a bunch of Congressmen, for Pete's sake.

Those are his words, that term unfortunately includes us all.

> I do not for a minute contend that the military does not have agonizing difficulties. But these problems will not be significantly assuaged by pouring more and more money into increasingly inflated salaries. How can we as conservatives fail to see this? We who have consistently criticized liberals for believing the way to make our problems go away is to throw money at it seems to fall in the same trap when the topic of discussion is military.

Whether he is correct or not he makes the point in the article about these individuals and the tremendous amount of increase most of them have had above the cost of living, every bit of it deserved, as far as I am concerned. When you go up from captain to major, you go up from E–2 to E–9, you deserve a pay raise. But you should not be placed in the category of being told every day that you have gotten behind in the cost of living. You have also to consider who is paying the taxes. We have firemen, policemen, schoolteachers, plumbers and a lot of other people out there who are working like heck and who are also suffering because of inflation.

I just believe that we not only have to help the military but we have also got to cease so much distorted conversation about what terrible suffering is going on. If we don't, again no matter what we do, the perception is going to be that people are being very unfairly treated and perceptions many times have more effect on decision-making and reenlistment and so forth than reality.

Dr. KORB. Senator, nobody is asking, for example, with this 5.3-percent pay raise to get the military ahead of other people. For example, if you take blue-collar wages and compare them to what

has happened since the creation of the All-Volunteer Force, military people, most of whose enlisted specialties would be comparable to that, have fallen behind those. Again, when you are talking about these massive raises, I think it is important to keep in mind that particularly in the areas, for example, as was indicated in the letter Senator Cohen mentioned, we made these people pay the cost of their own moves, we did not reimburse them fully.

What we are asking for is 5.3 added to the 2.6 real increase that you voted last fall; something like eight over and above the cost of living and I think that the data show that for an across the board, particular ranks in the military did fall behind. The people who did progress through there, certainly their wages went up not as a function of just the cost of living but as a function of taking on added responsibilities both in terms of the demands put on them and in terms of the people they have to support.

Another thing to keep in mind is that the demands we make on our military people at the present time because of the international situation are unprecedented in a peacetime environment. We are asking the people to work 70 or 80 hours a week on carriers.

Senator NUNN. Wait 1 minute. I am not arguing that the 5.3 percent should not be extended. I am arguing whether it is across the board or not. That is what we are not getting out of the Department of Defense. We are not getting much thinking about the effect of these raises. We are not getting much analysis. An E–1 in 1972, if he is still in the service he has increased his pay about 225 percent; E–2, 202 percent; E–3, 193 percent; E–4, 174 percent; E–5, 150 percent; E–6, 132; E–7, 130; E–8, 122; E–9, 92 percent.

This gets to the compression problem. This gets to the question of how we reallocate this 5.3. I just don't see much thinking going on, frankly, in the Department of Defense about military pay in general and how it is done. I know Senator Armstrong made an excellent presentation about some of the things that have to be considered. I don't know who is considering it over there. If they are, I don't see it.

Dr. KORB. As I indicated in response to Senator Quayle's question, that is where your bonuses and special pays come in.

Senator NUNN. You started making the case that the bonuses cover only a few people. That is where we came in. You can't take the position that bonuses cover only a few people and turn around and with the same argument make the case that you are making up for these distortions in increases by bonuses. You can't have it both ways.

Dr. KORB. Let me put it this way: I think that the bonuses begin to deal with that problem. I also indicated in response to the questions from Senator Cohen and Senator Quayle that we intend to take a very serious look at the reallocation authority which was given for the first time last year to the administration and it was a different administration. We do understand this. I think the 5.3 percent pay raise was intended as a signal to all military people that, in fact, we understood the situation, the extra demands placed upon them.

Again when you talk about not much thinking, I think it is important to keep in mind that because of the demand for the congressional budget control and impoundment process and tight deadlines, that we had less than 1 month to send our recommendations to the Congress

to deal with the situation. By October 1, I can assure you that the analysis and the thought behind whatever we recommend will be much more thorough. What we are talking about now is something that we had 1 month basically to work on to deal with a specific problem.

Senator NUNN. I am glad to understand that. I do recognize you need time and I concede the point.

Do you endorse, and does the Department of Defense endorse, the proposal that we read about in the military that military people be exempted from income tax?

Dr. KORB. Senator, I think the administration has decided to withdraw that particular proposal. As you know, it was sent to the Office of Management and Budget. So far as I know, it never became an official administration policy.

Senator NUNN. Is it still the policy of the Department of Defense?

Dr. KORB. The policy of the Department, as you indicated, in terms of doing analysis, we are looking at all the different ways in which we may deal with the particular personnel problems that we have.

Senator NUNN. If you want to isolate the military from the American public and if you want to put the military in a position where you are, in effect, denying them citizenship, then continue with this kind of thinking because I don't know of anything that would turn the public off on the military more quickly than this. When I read in the paper that this kind of thinking goes on, it makes me really wonder where we are in terms of reality.

If we are going to have that kind of proposal, we are going to have an army and military isolated from citizenship. Nothing could remove us further from the concept of citizen-soldier, citizen-sailor or citizen-airman than this kind of proposal. If we are going to continue along that line, it does make me lose confidence in the thinking going on at high levels of the Department of Defense. I am glad somebody in OMB has spiked that one.

Senator COHEN. I don't disagree with what Senator Nunn has said but I think it is unfair to attribute that to the entire Defense Department. We have the same problem from time to time.

Senator NUNN. I confined it just to the top.

Senator COHEN. Coming up in Congress is a proposal to increase its exemption on income from $3,000 to $6,000.

When somehow such a proposal gets floated, right away, it ends up in the U.S. News & World Report, "Congress is off again and they are going to give themselves another exemption from $3,000 to $6,000," I get mail saying "You guys are doing it again."

To relate it back to the situation of travel reimbursement, the quickest way to cut down congressional travel, it seems to me, is if we came out with a rule that you have to pay your own transportation to Japan or wherever you go and you won't get per diem. I guarantee there will be very few people wanting to go on these congressional trips around the globe. The problem is that the servicemen don't have that choice. They have to go and they are not getting reimbursed.

I read about the Navy man who had to move his family and was reimbursed only $285. He exhausted his savings to move.

Senator NUNN. I agree with you on both those points.

Second, I would say we did try to correct that problem in the Nunn-Warner bill last year and it went a long way. We may not have gone all the way. Maybe we ought to consider putting money in this area. I think it is unfair to order them to go somewhere and they have to pay out of their own pocket. I did not want my remarks to be taken as an indictment of the whole Department of Defense but I could not believe what I was reading, we were going to have the military isolated from society by not having the sometime dubious but nevertheless privilege of participating in paying taxes.

Dr. KORB. If I might comment on that, I think it was an attempt by people to explore a number of ways in which we could deal with the problem. I don't think it was ever an attempt to create the situation that you talk about and as far as I know it never got to the stage where it was adopted. We were looking at a number of ways in which we could send a signal to men and women of the Armed Forces. Your remarks are well taken and we will consider them when we go about looking at compensation initiatives throughout the remainder of this year.

Senator NUNN. Could I say that proposal is dead now? I would like to make a speech on it and say that.

Dr. KORB. As far as I know it has not cleared through the official administration channels. That is all I can say.

Senator NUNN. You mean it is still alive?

Dr. KORB. I didn't say that nor can I.

Senator NUNN. If you don't know, who does?

Dr. KORB. I think you would have to ask the Secretary of Defense that particular question.

Senator NUNN. Did he propose that?

Dr. KORB. As manager of the Department he in a sense proposes anything that happens.

Senator NUNN. What is your personal view on it?

Dr. KORB. My personal view is that we have to look at a number of ways to deal with the situation and this was one of a number.

Senator NUNN. I understand that. What is your personal view on that?

Dr. KORB. I support whatever the Secretary and administration want to do to improve the situation for military people.

Senator NUNN. Thank you.

Senator JEPSEN. Dr. Korb, we will recess for about 15 minutes. I hope you will be able to stay. We will wind this up in about 45 minutes if that is possible. We won't be necessarily questioning you any more. If you would like to stay, fine.

Dr. KORB. Under normal circumstances I would be more than pleased to stay because this is so important, but unfortunately I am going to have my official swearing in at 5 o'clock today. So I must leave at 4:30.

Senator NUNN. Is that why you came back from Hawaii?

Dr. KORB. We dovetailed the two as long as I was back.

Senator JEPSEN. I was telling everbody you did it for Senator Exon.

Let me make this announcement. Right now the Senate Chamber is hosting the Japanese Foreign Minister and Ambassador Mansfield and they would like as many Senators on the floor at 4 o'clock as possible.

Senator COHEN. Could I offer a letter from the Non-Commissioned Officers Association which has a breakdown of military pay and factory wages to be included in the record.

Senator JEPSEN. It is so ordered.

[The letter provided for the record follows:]

THE NON-COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

The attached information was developed by the National Capital Office, Non-Commissioned Officers Association of the United States of America (NCOA). Hopefully, it will be of some use to you in considering a pay increase for military personnel on or about July 1, 1981.

C. A. "MACK" MCKINNEY,
Senior Vice President, Government Affairs.

MILITARY PAY VERUS FACTORY WORKERS' WAGES

Comparing military pay with wages in the civilian sector is the same as matching apples and oranges. There are too many factors involved. However, a relationship may be established between the enlisted ranks and the nation's factory workers. The range—between semi-skilled and skilled occupations—is close enough to note similarities and, yet, approximate the differences between the two groups.

In a recent U.S. News & World Report the magazine published a list of annual income figures for the average American factory worker. The salaries ranged from a low of $11,551 for the Miami, Florida area to a high of $22,666 for Sioux Falls, South Dakota. The annual rates were based on official data avilable for February 1981.

To compare income levels of U.S. factory workers and military enlisted personnel, the average grade and pay had to be established for the latter group. With more than 1.7 million enlisted service-members on active duty, it was determined that the grade of E–4 is at the mid-level and, therefore, constitutes the average. (See Chart 1).

CHART 1.–*Average enlisted member, U.S. Armed Services (to nearest 100)*

Grade:	*Number*
E–8, E–9	46, 000
E–6, E–7	317, 300
E–5	315, 700
Average enlisted member, E–4	391, 000
E–1, E–2, E–3	662, 100

[1] One-half of Force equals 867,000.

The next step was to develop an average pay level. For an E–4 with 4 years of service, considered to be the average wage earner in the enlisted grades, an annual regular military compensation (RMC) was calculated to $13,055 for a married individual and $11,200 for one without dependents. (RMC is defined as the sum of basic pay, quarters [BAQ] and subsistence [BAS] allowances, and the tax advantage on the allowances.)

Finally, the States having the largest population of military personnel (30,000 or more) were selected and matched with the cities listed in the U.S. News & World Report.

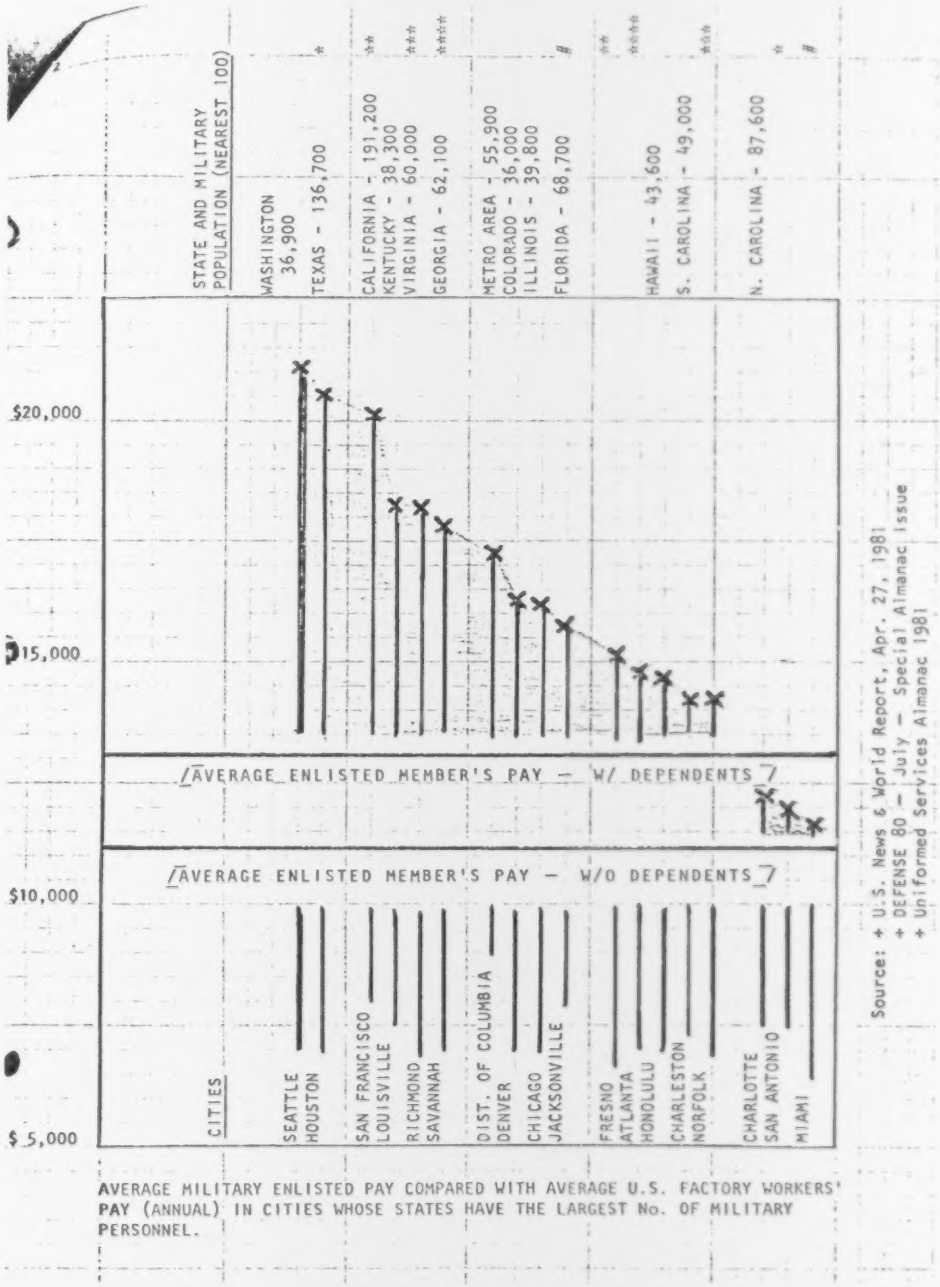
The results are noted below and in the accompanying chart (See Chart 2).

The average enlisted member without dependents (AEM—) pay is below that of the average factory worker's (AFW) lowest salary of $11,551. It is also lower than the salaries of the AFW in San Antonio, Texas, at $11,958, and Charlotte, N.C., at $12,372.

Nowhere in the U.S.N. & W.R. list did the AFW salaries fall below that of the the AEM—.

Of the more than 70 cities listed in the U.S.N & W.R. only Charlotte, N.C.; Manchester, N.H.; Miami, FL; Portland, ME; and San Antonio, TX had AFW salaries at a lower level than the average enlisted member with dependents (AEM+). Greensboro, N.C.; New York City; Jackson, MS; and Albuquerque, N.M., were the only cities that had AFW salaries comparable with that of an AEM+. More than 60 had higher annual salaries than the AEM+.

A military pay increase of 5.3 percent on July 1 will do little to upset the differences in annual incomes, however, it will give the enlisted member a nearer equivalency with his or her closest civilian counterpart.



AVERAGE MILITARY ENLISTED PAY COMPARED WITH AVERAGE U.S. FACTORY WORKERS' PAY (ANNUAL) IN CITIES WHOSE STATES HAVE THE LARGEST No. OF MILITARY PERSONNEL.

Senator EXON. If he wants to leave, I want to clarify your recommendation to this committee. You are basically proposing that we go ahead with the 5.3 increase across the board on July 1, is that correct?

Dr. KORB. That is correct, Senator.

Senator EXON. What about October?

Dr. KORB. October would be the appropriate time in which to target. I can give you every assurance that we will take a very, very

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close look at that. Our indication right now is that in effect we would like to deal with the compression problem at that time.

Senator EXON. What do you think about the proposition of a general, across the board increase at that time, plus something on top for targeting?

Dr. KORB. I think it is important that we send a signal as soon as possible. I think the out of phase raise is the best way to do that. I am afraid that in October the man and woman in the field may feel that this is kind of what the inflation rate is really and it is nothing special. I share some of Senator Cohen's concern that there is a possibility that such a large raise at that time might encounter more legislative difficulties.

Senator EXON. Thank you.

Senator JEPSEN. Thank you very much, Dr. Korb, and congratulations an hour in advance of your swearing in.

Dr. KORB. Thank you, Mr. Chairman.

Senator JEPSEN. We will stand in recess for 15 minutes.

[A brief recess was taken.]

Senator JEPSEN. The Subcommittee on Manpower and Personnel will come to order. We now have Mr. Hale from the Congressional Budget Office.

STATEMENT OF ROBERT F. HALE, CONGRESSIONAL BUDGET OFFICE

Mr. HALE. Given the lateness of the hour, let me ask if I may submit my statement for the record and read a brief verbal summary.

Senator JEPSEN. If there is no objection it is so ordered.

Mr. HALE. We do appreciate the opportunity to appear before your subcommittee and testify on the administration's proposed 5.3-percent military pay raise and alternatives to it. Let me begin by discussing the criterion I know you are considering in evaluating the pay raise, pay comparability—but also two others, recruiting and retention. Then I will talk briefly about the administration's across-the-board proposal and two alternatives to it. A graduated pay raise and a graduated raise coupled with some added recruit pay.

Let me turn first to the criteria.

Pay comparability refers, to the relationship that existed between military and civilian pay when the United States moved to the All-Volunteer Force in 1973. Under a narrow reckoning, a special pay raise of at least 5 percent would be required to keep pace with increases provided to production workers since the transition to the All-Volunteer Force. That calculation, however, considers only the 11.7-percent pay raise enacted last year and does not consider the other important increases in pays and bonuses that the Congress authorized. When those are considered, a special raise of less than 5 percent might be sufficent to restore pay comparability with the private sector.

More importantly I think the principle of comparability itself may be of limited use in determining the size and nature of a special pay raise. Calculations depend critically on the index that is used and the base period that is selected. They also ignore in comparison with civilians, they ignore features that are unique to military jobs.

I think that particluarly in periods when there are manpower problems, the Congress might want to look beyond comparability

and judge what pay raises are necessary to meet recruiting and retention goals.

With that in mind and as a basis for evaluating alternative pay raises let me review CBO's projection of career retention and recruiting trends under current policy. Our projections suggest that, even in the absence of a special pay raise, the number of careerists will increase in each of the four services over the next 5 years.

Senator JEPSEN. Excuse me a minute. Help me a little bit. What is that based on? How do you arrive at the things you are telling me?

Mr. HALE. The projections are made by taking historical retention rates and adjusting them based on studies that have been done to measure the effects of higher pay on reenlistment decisions. We took the most recent years for which data are available rates for 1979 and 1980 and adjusted them to reflect the increases in pay that the Congress enacted last year. We then applied those rates to the people now in the service, estimate the number who will continue on. The method that we use is similar to the one used by the Department of Defense in making the estimates that Dr. Korb referred to a few minutes ago. The projections are essentially based on historical data.

Senator JEPSEN. The same process, standardized the same way and the same people?

Mr. HALE. We do our own projections, so there are some slight differences. We generally agree with what the Department has predicted. Those results suggest that the number of careerists will increase in each of the four services, even in the absence of a special raise. Indeed, those increases would allow all of the services except the Navy to meet their near-term career objectives, at least those established last year, by the end of 1982. The Navy would meet its objectives by the end of 1984. The services might, of course, find it necessary to increase those objectives. That would leave these conclusions somewhat less favorable.

Also, the aggregate projections do mask overages in some skills and shortages in others. That is an important conclusion in itself. It may suggest that the pay raise should be targeted on shortage skills where we are having shortages, perhaps by using special pays and reenlistment bonuses, since they are typically the least costly ways of meeting shortfalls in particular skills.

Finally, these projections are limited to enlisted personnel. The Department of Defense has testified that problems with officers are much less severe, so we have concentrated on the enlisted community.

Without a special pay increase, I think the outlook for enlisted recruiting is considerably less favorable than that for retention. The problem is that the services must not only meet their numerical goals for recruits but must also satisfy the quality goals that have been set by the Congress. I think you are quite familiar with them, and I won't reiterate them here.

Assuming the services meet their numerical goals and the test score constraints that this subcommittee has recommended extending, we estimate that 60 percent of the Army's male recruits would hold high school diplomas in 1982. In making these estimates we used the same general methodology that I discussed earlier—historical data and studies that have been done on how people react to changes in pay. That 60 percent would, of course, fall short of the 65-percent goal

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set for the Army in fiscal year 1981 which you have recommended extending.

The recruiting outlook beyond 1982 would be substantially less favorable. If end strength remains relatively constant, the percentage of recruits holding a high school diploma would fall to 50 percent in 1983, driven down by a tightening of the constraint category IV recruits to 20 percent. There would be some slight additional declines in the years beyond 1983.

These results are sensitive to a number of assumptions, the most important being end strength. If the Army decided to increase its end strength substantially the results would be much less favorable.

In summary, our projections point to an increase in career force levels in the next 5 years even in the absence of a special pay increase. Shortages should be limited to specific skills. But, without some special increases, problems in meeting both numerical and quality recruiting goals, particularly in the Army, would likely persist. These problems would be especially severe if the Army increases its end strength.

Let me turn now to the administration's proposal. I will concentrate on the 5.3 percent pay raise.

First, let me say a word about its cost. If the 5.3 percent pay raise were made effective July 1, costs would increase by $430 million in 1981 and by $1.9 billion in 1982. Those figures include added costs for basic pay and allowances, lump-sum terminal leave, and other costs that vary with basic pay. There might also be some additional costs resulting from more people in higher pay grades and higher longevity steps.

The 5.3 percent increase would also increase future retirement liabilities. Those liabilities don't show up in today's military budget. If the military retirement system were funded like a typical private sector plan, requiring that money be set aside to pay future retirement liabilities, then the 5.3 percent raise would increase the amount to be set aside by $650 million in 1982. So if future retirement liabilities are taken into account, the cost of the 5.3 percent pay raise would increase by about one-third.

The special raise would increase the number of enlisted career personnel. We estimate an increase of approximately 10,000 by the end of fiscal year 1982 and substantially more in later years. The increases would be in all skill areas, not just those with shortages. The 5.3 percent increase should also improve recruiting, at least in 1982. It should enable the Army to meet its numerical goals in 1982 while also achieving the 65 percent target for high school graduates and the 25 percent limit on category IV recruits.

Our conclusion that the Army can meet its recruiting goals depends critically on its policy toward careerists. If the Army were to choose to limit its career force to about 280,000 persons, then the 5.3 raise would not reduce the demand for recruits and the Army would be much less likely to meet its goals. The 5.3 raise should increase the number of recruits, however, the improvement would occur in all skills, not just those with shortages.

I think that may suggest the Congress may want to consider alternatives to an across-the-board increase to focus the raise on the areas of greatest need. One alternative that I know the subcommittee is considering is a graduated pay raise. We have analyzed an illustrative plan that would provide increases ranging from 4 percent

for E–4's to 6.5 percent for E–7's to E–9's. One rational for a differential increase is the pay compression issue that has been discussed today. While ackowledging the potential importance of that factor, our analysis of this option has focused on its cost and effects on recruiting and retention.

A graduated raise would cost substantially less than the administration's proposal. Retirement liabilities I spoke of would increase by $450 million in 1982. Enlisted career levels would rise by about the same amount as the 5.3-percent across-the-board raise. That is not surprising since pay increases under the graduated and 5.3-percent plan would be quite similar for most careerists. Recruiting results under the graduated pay raise plan suggest that, if the Army meets both its numerical goals and the test score constraints, about 63 percent of its male nonprior-service recruits would hold high school diplomas in 1982. This suggests that meeting the 65-percent target might be somewhat more difficult under a graduated plan.

In sum, a graduated pay plan would cost less, than the 5.3-percent proposal and would increase the number of careerists. Persistent recruiting problems, however, suggest that the Congress may wish to consider adding some type of recruiting incentive to the graduated pay raise.

We have looked at two possible ways to improve recruiting incentives. One alternative would be to authorize specialty pay for selected new recruits. A specialty pay that provided $150 a month over the first 3 years of enlistment might be sufficient to meet the Army's recruiting objectives and could probably be offered under the law that now authorizes proficiency pay. Specialty pay would compensate those who enter skills that are rigorous and demanding, but do not offer training that is easily transferable to the civilian sector.

Another approach to raising recruit pay would be to increase the size and broaden the eligibility for enlistment bonuses, as the administration has requested. Enlistment bonuses are probably the least expensive alternative since the "up-front" cash has high appeal to youthful recruits, and the bonus can be easily targeted on shortage occupations. On the other hand, some may object to paying a cash bonus to young recruits, since the bonuses are difficult to recover from those who leave without completing their first term of service.

Either approach could substantially improve recruiting results. A speciality pay costing $110 million, if coupled with the graduated pay raise I have just discussed, should allow the Army to meet both its numerical and quality recruiting objectives in 1982.

Our testimony has concentrated on the 5.3-percent pay increase and alternatives to it, realizing there may be other, broader issues coming before the subcommittee—such as educational benefits and retirement reform—with equally important effects on recruiting and retention.

As to the special pay raise, I think our analysis does suggest that, depending upon the subcommittee's decision substantially different results could occur. An across-the-board raise would increase both the number of careerists and recruiting prospects, but would do so in all occupations, not just those with shortfalls.

On the other hand, a graduated pay raise targeted on enlisted careerists would be cheaper than an across-the-board raise, but would still result in more careerists. But to help the service meet their

recruiting objectives the Congress may also need to consider some added recruiting incentives.

Let me conclude by saying that it is clear that the Congress is carefully scrutinizing the cost and effectiveness of the All-Volunteer Force. Our results suggest that the type and scope of pay raises will influence both those costs and the ability of the volunteer system to meet recruiting and retention goals. The Congress decision on these and subsequent raises could be an important factor in the ultimate success or failure of the All-Volunteer Force. That concludes my testimony.

[The prepared statement of Mr. Hale and associates follows:]

PREPARED STATEMENT OF ROBERT F. HALE, JOHN H. ENNS, AND JOEL N. SLACKMAN, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, CBO appreciates the opportunity to appear before your Subcommittee to testify on the Administration's proposed 5.3 percent military pay raise and alternatives to it. We would like to begin our testimony with a discussion of several criteria for evaluating the pay raise: pay comparability—which is the major criterion used by the Administration—recruiting, and retention. Next we will present our analysis of the Administration's proposal, including its costs and likely effects on recruiting and retention. Finally we will analyze two possible alternatives to the Administration's plan: a graduated pay raise for enlisted careerists that would offer higher increases to more senior personnel, and a package combining a graduated pay raise with recruit pay increases. In keeping with CBO's mandate to provide nonpartisan analysis, we will analyze these alternatives but not recommend among them.

Our testimony today suggests several major conclusions:

The principle of pay comparability may be of limited use in determining the size and composition of a special pay raise. In a period of manpower problems, the Congress may wish to focus on the likely effects of the raise on numbers of enlisted careerists and enlisted recruiting.

Even without a special pay raise, the numbers of enlisted careerists will increase in each of the services over the next five years. Shortages will be limited to specific skills, particularly technical skills. On the other hand, problems with enlisted recruiting are likely to persist, particularly in the Army.

The Administration's proposed across-the-board pay raise of 5.3 percent would further increase the number of enlisted careerists and would give the Army a good chance of meeting its enlisted recruiting goals, at least in 1982. But the raise would be costly and would tend to improve recruiting and numbers of careerists in all skills, not just those areas with shortfalls.

The Congress might want to consider alternatives to an across-the-board pay raise. A graduated pay raise, granting larger raises to more senior enlisted personnel but no increase to junior enlisted personnel and officers, would be cheaper and would increase numbers of enlisted careerists almost as much as an across-the-board raise. To help meet recruiting goals, the Congress might also have to consider increases in recruit pay, such as a new specialty pay for selected recruits, increased enlistment bonuses, or a mix of both.

EVALUATING MILITARY PAY RAISES: COMPARABILITY AND OTHER TESTS

Comparability

The Administration has proposed a special 5.3 percent pay raise for all military personnel to take effect in July of this year. It argues that this increase is needed to restore pay comparability with the private sector. Comparability is defined here as the relationship that existed between military and civilian pay in 1972, when the United States moved to an all-volunteer force. Indeed, CBO's calculations suggest that, under a narrow reckoning, a special pay raise of at least 5 percent would be needed to ensure that military pay catches up with increases in pay for production workers that have occurred since the transition to the all-volunteer force. This calculation, however, considers only the improvements in pay stemming from the 11.7 percent across-the-board increase granted last October. In addition to that 11.7 percent pay raise, the Congress last year enacted other important increases: a new variable housing allowance, larger food allowances, and numerous other increases in special pays and bonuses. While all

personnel did not benefit, this package of increases added 3 to 4 percent to the pay of the average military person. Taking these important added pays into account, a special raise of less than 5 percent may be sufficient to achieve comparability with the private sector.

The comparability principle may, however, be of limited use in determining the appropriate size and nature of the special pay raise. Comparability calculations depend critically on the index used. Should one use an index for production workers, which may be most appropriate when dealing with enlisted personnel, or the index used to determine raises for federal white-collar personnel, which current law employs to determine military pay raises? Comparability calculations also depend on the exact base period that is chosen. Should that base period be the year of the transition to the all-volunteer force or the latest period when recruiting and retention results were acceptable? Finally, calculations of comparability with civilians ignore features that are unique to military jobs.

Particularly in a period when there are military manpower problems, the Congress may want to look beyond comparability and judge what pay changes are needed to meet recruiting and career retention goals. To assist in those judgments, we would like to turn now to projections of likely retention and recruiting trends over the next five years. These projections assume that the Congress enacts a pay increase of about 9 percent this October—which would maintain the real pay levels enacted last year—but grants no special pay increases of any kind. Because they do not assume the 5.3 percent increase or any other special raise, the projections serve as a useful base case for assessing alternative pay raises.

Numbers of careerists

CBO's projections suggest that the number of enlisted career personnel will increase in each of the services over the next five years, even without a special pay increase. (Career personnel are defined as those with more than four years of service.) Taking the four services together, the increase should, by the end of fiscal year 1982, leave the enlisted career force at about 32,000—or 4 percent—above its 1980 level. By the end of 1986, the career force will have grown by 114,000—or 15 percent—above 1980 levels. (A service-by-service breakdown of these projections is presented in Table A-1 in the appendix to this testimony.)

These increases would allow all the services except the Navy to meet their near-term career objectives—at least those established last year—by the end of 1982. The Navy would meet its objective by the end of 1984.

The services might, of course, find it necessary to increase their enlisted career objectives. Such an increase might be needed to man a larger force or, even if the force does not grow, to provide more careerists to operate highly technical equipment. If enlisted career objectives are increased, the conclusions to be drawn from these forecasts would not be as favorable. Nonetheless, all the services except the Navy could meet higher career objectives, at least by 1986.

The aggregate projections of careerists presented here probably mask overages in some skills and shortages in others. Yet that itself is an important conclusion. If shortfalls exist only in certain skills, the Congress may wish to target special pays and reenlistment bonuses on those areas, rather than providing across-the-board pay raises to all military personnel.

Finally, these projections are limited to trends for enlisted personnel, as is most of our discussion today. The Department of Defense has testified that problems with officer personnel are less severe than those with enlisted personnel. Indeed, it appears that officer retention problems are concentrated in a few specific skills, such as nuclear-trained personnel. Thus, for officers, as for enlisted, the Congress wishes to consider increases in special pays and bonuses as an alternative to across-the-board raises.

Recruiting outlook

Army Problems in 1982.—Without a special pay increase, the outlook for enlisted recruiting is less favorable than that for career retention, particularly in the Army. The problem is that the services must not only meet their numerical goals for recruits, but must also meet the quality goals established by the Congress. These goals set limits on the percentage of recruits the services may accept with low test scores on the standard entrance examination. For the Army, the Congress has also set minimum objectives for the percentage of recruits holding high school diplomas. Holding a high school diploma appears related to the likelihood of completing one's first term of service. While hard evidence is lacking, test scores may predict on-the-job performance.

CBO's projections assume continuation of current statutory limits on the percentage of enlisted recruits the services may take from test category IV, the lowest acceptable category on the entrance examination. Thus, only 25 percent of all non-prior-service recruits entering each service can score in test category IV in 1982; that limit tightens to 20 percent in 1983 and beyond.

Assuming that the services meet both their numerical recruiting goals and these test-score constraints, we estimate that about 60 percent of the Army's male recruits would hold high school diplomas in 1982 (see Table A–2). This would fall short of the 65 percent goal set for the Army for fiscal year 1981, a goal that the Senate Armed Services Committee has recommended continuing in 1982. If it is to meet the 65 percent goal, the Army might have to reduce its recruiting objectives by roughly 12,000 men, which could mean that it would fall short of its end-strength goals.

While important, these recruiting problems do not occur across the board. They tend to center on the combat arms skills, as evidenced by the substantial portion of enlistment bonuses that now go to these skills.

Unlike the Army, the other three services should not face serious recruiting problems in 1982. While the Congress has not established specific high-school-diploma objectives for these services, all three should exceed the 65 percent goal.

Problems More Widespread Beyond 1982.—The recruiting outlook beyond 1982 could be substantially less favorable than in 1982. Long-range projections depend, of course, on many assumptions. CBO has assumed that the Congress roughly maintains current end strengths and grants pay increases that keep pace with increases in the private sector, but grants no special pay increases. Under these assumptions, the percentage of Army recruits holding high school diplomas falls to 54 percent in 1983, driven down by the tightening of the constraints on Category IV recruits. By 1986, the percentage falls another point, to 53 percent, reflecting the gradual decline in the number of young persons eligible to enlist. These percentages of high school diploma graduates would, of course, fall far short of the 65 percent goal and also would be well below the historical percentages achieved by the Army both under conscription and during the early years of the all-volunteer force. Moreover, the other services might also have difficulty maintaining their historical percentages of high school diploma graduates (see table A–2).

Projections Sensitive to Assumptions.—Both for 1982 and in the years beyond, these recruiting projections could vary widely with changes in key assumptions (see table A–3). The most dramatic effect would result from a sharp increase in end strengths, particularly in the Army. If, for example, the Army were gradually to increase its enlisted end strength by 100,000 persons over the next five years, and the test-score constraints were maintained, only 44 percent of male recruits would be likely to hold high school diplomas in 1986. Recruiting results are also sensitive to changes in the test-score constraints and, to a lesser extent, to assumptions about unemployment.

In summary, CBO's projections point to an increase in career force levels over the next five years, even in the absence of special pay increases; any shortages that might occur should be limited to specific skills. But, without some special increases, problems in meeting both numerical and quality recruiting goals, particularly in the Army, will likely persist. These problems could be especially severe if the Army seeks to increase its enlisted end strength.

THE ADMINISTRATION'S PROPOSAL

The key proposal in the Administration's pay package is the 5.3 percent pay raise for all military personnel, effective this July. The new Administration has also endorsed other pay initiatives. These include increases in the maximum allowable enlistment bonus and a broadening of eligibility requirements for the bonus, higher aviation bonuses, and numerous other changes. Finally, the Administration has proposed a contingency fund of $370 million for further pay initiatives, with specific proposals to be provided.

The Administration has also proposed other changes that could have important effects on military manpower. End strengths are to be increased in all of the services. The total size of the military could reach 2,120,000 by the end of fiscal year 1982—an increase of 70,000 over the 1980 force level. Also, the Administration has proposed lifting the limitations on the percentage of recruits who can be taken from test category IV.

Costs

Since the 5.3 percent pay raise is the major part of the Administration's plan, and the focus of this testimony, we have concentrated on its costs. Assuming an

effective date of July 1, the pay raise would add about $430 million to costs in fical year 1981. In fiscal year 1982, additional costs would amount to $1.9 billion. These figures include not only the added costs for basic pay and allowances, but also costs for reserve pay, reenlistment bonuses, lump-sum terminal leave, and retirement outlays—all of which automatically increase when basic pay is raised.

Nor are these the only costs that could be associated with the 5.3 percent pay raise. The special pay raise is intended to increase numbers of career personnel. This would mean more persons at higher longevity steps and, if current promotion policies remain in effect, more at higher paygrades. In 1982, this shift could add about $28 million to the military personnel budget, with substantially larger increases likely in future years.

Finally, the 5.3 percent pay raise would increase future retirement liabilities. These added liabilities would not be fully realized until those benefiting from the pay increase reach retirement age, nor do they show up in today's military or federal budget. But, if the military retirement plan were funded like a private-sector pension plan, requiring that money be set aside to pay these future retirement liabilities, then the 5.3 percent pay raise would increase the amount set aside by $650 million in 1982. We understand that the Administration will soon propose an accrual accounting system for military retirement that would cause these additional liabilities to be reflected in the defense budget.

Effects on careerists and recruiting

Careerist Numbers Would Increase.—The 5.3 percent pay raise would increase the number of career enlisted personnel. Relative to career levels in the absence of a special raise, the increase could amount to 10,000 persons by the end of fiscal year 1982. If the increase represented by the 5.3 percent pay raise were maintained in future years, and if personnel policies accommodated larger numbers of enlisted careerists, the career force could grow by 49,000 by the end of 1986. These improvements would, of course, be spread among all skill areas, rather than being concentrated in areas with shortfalls.

Recruiting Would Also Be Helped.—The 5.3 percent increase should also improve the enlisted recruiting outlook, at least in 1982. The pay raise would help in two ways. First, by increasing the number of careerists, it would reduce the demand for new recruits. And second, it would induce added numbers of high-quality recruits to join the military. As a result, the raise should enable the Army to meet its numerical recruiting goals in 1982, while also meeting the 65 percent target for recruits holding high school diplomas and the limitation that no more than 25 percent of all recruits may score in test category IV. (These projections assume continuation of the test-score constraints, as this Subcommittee and the full Committee have recommended. Results, of course, would differ if the constraints were lifted, as the Administration has proposed.)

Our conclusion that the Army can meet its 1982 recruiting goals depend critically on the Army's policy toward careerists. As of last year, the Army established an objective for about 280,000 enlisted careerists, a target that they are likely to exceed this year, even without any special pay increase. If the Army chooses to limit its career force to about 280,000 persons, then the 5.3 percent pay raise would not reduce the demand for recruits and so the Army would be less likely to meet its recruiting goal.

Also, as with retention, the 5.3 percent pay increase would improve recruiting in all areas, rather than concentrating increases in the combat arms skills, where problems are most apparent.

In the years beyond 1982, the special 5.3 percent increase would improve enlisted recruiting, but not by enough to avoid future recruiting problems. Even with the raise, the Army would slip to 59 percent high school diploma graduates in 1983 if it met both its numerical goals and the category IV constraints. The other services might also face some problems, particularly in the latter part of the five-year period.

In sum, then, the 5.3 percent pay raise would both increase numbers of enlisted careerists and improve enlisted recruiting (see table 1). These improvements, however, would occur in all skills, not just those with shortages. Improvements would also occur in officer recruiting and retention, even though problems in the officer corps appear more limited than those among enlisted personnel. In an effort to focus the improvements on areas of greatest need, the Congress could consider alternatives to the 5.3 percent pay hike.

TABLE 1.—SUMMARY OF EFFECTS OF ALTERNATIVE PAY PLANS ON COSTS, NUMBERS OF CAREERISTS, AND RECRUITING

	Added 1982 costs [1] (millions)		Added number of careerists [2] (all services)		Percent of Army recruits holding high school diplomas [3]	
	Budget costs	Retirement liabilities	1982	1986	1982	1986
Administration proposal	$1,900	$650	10,000	49,000	65	58
Graduated pay raise	950	450	9,000	43,000	63	56
Graduated pay raise plus added recruit pay	1,050	450	9,000	43,000	65	[4] 65

[1] "Budget costs" include higher basic pay and allowances (excluding the effects of more persons in high pay grades and longevity steps) plus added costs of reserve pay, reenlistment bonuses, lump sum terminal leave, and other pays that increase when basic pay is raised.

[2] These columns show added numbers of careerists (defined as those with more than 4 yrs. of service) above the base case. The base case assumes on special pay increase but does assume increases in end strengths for 1982 as proposed by the administration. End strengths through 1986 remain roughly at 1982 levels.

[3] These numbers represent percentages of male, non-prior-service Army recruits who hold high school diplomas. All percentages assume continuation of the test-score constraints now in effect.

[4] This estimate assumes increases in recruit pay beyond those required in 1982.

GRADUATED PAY RAISE

The Congress could enact a graduated pay raise for enlisted careerists only, with higher increases going to more senior personnel. We understand that the Subcommittee is now considering such a plan. As an example of a graduated plan, we have assumed that personnel at paygrade E–4 would receive a 4 percent increase; paygrade E–5, 5 percent; paygrade E–6, 6 percent; and paygrades E–7 to E–9, 6.5 percent. Junior enlisted personnel (paygrades E–1 to E–3) would not receive a special pay raise under this illustrative example, nor would officer personnel.

One rationale for such a pay plan is a desire to make enlisted careers more attractive. The plan moves in that direction by increasing the pay "spread" between junior and senior enlisted personnel. The plan would also move toward restoring the pay spreads that were in effect before the United States moved to an all-volunteer military in 1973. While acknowledging the potential importance of these factors, our analysis of this option focuses on its costs and its effects on recruiting and retention.

Costs

A graduated pay raise would add $950 million to costs in 1982 (see table 1). This is less than the cost of a 5.3 percent across-the-board increase because the added costs of higher raises for senior enlisted personnel would be more than offset by the absence of raises for officers and junior enlisted personnel.

Like the across-the-board raise, this pay hike should increase career levels and so could add costs for more persons in high paygrades and longevity steps. This could add about $27 million to costs in 1982.

Retirement liabilities, while not shown in the budget, would also increase by about $450 million. This is less than the increase under the Administration's across-the-board proposal since officer pay would not be raised.

Effects on Numbers of Careerists and Recruiting

Careerist Numbers Up.—A graduated pay raise would increase numbers of enlisted careerists by almost as much as the 5.3 percent across-the-board pay raise. Relative to career levels in the absence of any special pay hike, increases would amount to 9,000 by the end of 1982 and to 43,000 by the end of 1986. These compare to increases of 10,000 and 49,000 under the across-the-board increase of 5.3 percent. The similar results are not surprising, since pay increases under the graduated and 5.3 percent plan would be quite similar for most careerists.

The effects of a graduated pay raise might differ among the services. The Air Force, for example, promotes enlisted personnel later in their careers. Therefore, a graduated pay plan tied to paygrades would reward Air Force personnel less. If the Congress wished to avoid this problem, the graduations of pay increases could be tied to years of service rather than to paygrades.

For enlisted careerists, the graduated pay plan also shares one disadvantage with the across-the-board pay hike. Increases in numbers of careerists would occur in all skills, not just those in which shortages exist. On the other hand, the

graduated plan illustrated here avoids raising the pay of officer personnel, many of whom are not in shortage skills. And, since the graduated plan is cheaper, the services might have more latitude to increase special pays and reenlistment bonuses. This is probably the least expensive wey to meet shortages in particular skills.

Recruiting Still a Possible Problem.—Recruiting results under this graduated pay plan would be somewhat less favorable than those under an across-the-board pay raise of 5.3 percent, at least for the Army. Recruiting would benefit from the improvements in career retention because the demand for new recruits would decline. But the graduated pay plan—which does not increase pay for junior enlisted personnel—would not do much to induce more high-quality youths to enlist. Thus, if the Army met both its numerical goals and the test-score constraints only about 63 percent of its male, non-prior-service recruits would be likely to hold high school diplomas. This finding suggests that the Army might be able to meet a target of 65 percent, but would be less likely to accomplish that goal than it would with a 5.3 percent across-the-board pay raise.

As under the across-the-board option, these findings depend on the Army's policy toward careerists. If the Army chose to limit its career force to its current objective of about 280,000 persons, then the graduated pay plan would not reduce demand for recruits and so the Army would be unlikely to meet the 65 percent goal.

It may be increasingly difficult, moreover, to solve recruiting problems beyond 1982 by relying on growth in the career force to reduce the demand for recruits. Yet recruiting problems will continue. Even with the graduated pay raise, the percentage of Army recruits holding high school diplomas would decline to 58 percent in 1983 and to 56 percent by 1986. These numbers would, of course, fall below the 65 percent target as well as below historical averages.

In sum, the graduated pay plan would cost less than an across-the-board pay raise and would further increase numbers of careerists. Persistent recruiting problems suggest, however, that the Congress may wish to consider adding some type of recruiting incentive to the graduated pay raise.

GRADUATED PAY RAISE PLUS ADDED RECRUIT PAY

The Congress could enact a graduated pay raise, as discussed above, in combination with increases in recruit pay. Such added recruit pay could take one of two forms:

The Congress could authorize a specialty pay for new recruits. The specialty pay would be limited to high-quality recruits—that is, high school diploma graduates who score in test categories I to III. The specialty pay could be further limited to recruits who entered skills that have shortages, as designated by the Secretary of Defense. Specialty pay might be as much as $150 a month, paid over the first three years of an enlistment, and could probably be offered under the law that now authorizes proficiency pay. Such a specialty pay would compensate those who enter skills—such as the combat arms—that are rigorous and demanding but so not offer training that is easily transferable to the civilian sector.

The Congress could increase the size and broaden the eligibility for enlistment bonuses, as the Administration has requested. Enlistment bonuses are probably the least expensive recruiting incentive, since the "up-front" cash offered by the bonuses appeals to youthful enlistees. The bonuses can also be easily targeted on high-quality recruits entering shortage occupations—the policy that the Department of Defense now follows. On the other hand, some object to paying large cash bonuses to young recruits, and bonuses are difficult to recover from those who leave without completing their first term of service.

These two approaches are not, of course, mutually exclusive. For example, the Congress could allow the Defense Department to try a new specialty pay, under authority that now exists for proficiency pay. In addition, the Congress could broaden eligibility for enlistment bonuses and, rather than doubling their maximum size, raise the maximum by the same percentage as basic pay increases.

Cost and effects on numbers of careerists and on recruiting

This option would offer the same incentives to career personnel as the graduated pay raise discussed above; thus, it should have essentially the same effect on career force levels. If the Congress elected to provide specialty pay for some new recruits, it might be necessary to increase the use of bonuses at the first reenlistment point so as to keep up the incentive to reenlist among those whose specialty pay was terminated.

While leaving the increases in numbers of careerists unchanged, added recruit pay could substantially improve recruiting success. For example, coupled with the graduated pay raise discussed above, a program of specialty pay costing $110 million should allow the Army to meet both its numerical and quality objectives. (Since the specialty pay would be paid monthly during the first three years of an enlistment, not all the $110 million would be spent in 1982.) While details of such a plan should be formulated by the Department of Defense, the $110 million could provide about 40 percent of all high-quality recruits with specialty pay of $150 a month during the first three years of their enlistment.

The use of enlistment bonuses to meet recruiting objectives would be cheaper than specialty pays. Added costs could amount to about $90 million in 1982. The lower costs reflect the strong appeal of cash to youthful enlistees. But the costs shown here do not reflect losses of bonuses to those who leave the military without completing their initial term of service.

A final plan could, of course, reflect some mix of enlistment bonuses and specialty pays. Indeed, it may be necessary to approach recruiting problems with a variety of solutions: pay increases, changes in personnel policies, and increased recruiting resources. This will be especially true if a decision is made to increase substantially the size of the military, particularly the Army.

DECISION ON SPECIAL PAY RAISE COULD HELP DETERMINE MANPOWER DIRECTIONS

We have concentrated on alternatives to the 5.3 percent pay raise that seem likely to be debated quite soon. Other, broader alternatives may also come before this Subcommittee. For example, improvements in military educational benefits could be used to enhance recruiting. Military educational benefits are a popular topic; ten pieces of legislation to create a new G.I. bill have already been introduced in the 97th Congress. As a way to improve recruiting, improvements in educational benefits offer both promise and problems. CBO is currently assessing the likely costs and effects on recruiting, and we should soon have some preliminary results.

Some further restructuring of the military retirement system could also be considered. Numerous studies over more than a decade have suggested changes in retirement benefits, including raising benefits for some retirees and lowering them for others. Together, these changes could improve retention of career personnel and reduce long-run cost. This Subcommittee may eventually wish to consider some revisions in the retirement system as part of the overall changes in compensation that you are debating.

As for special pay raises, our analysis suggests that, depending on the Subcommittee's decision, substantially different results could occur. An across-the-board pay hike would increase both numbers of careerists and recruiting prospects, but would do so in all occupations rather than just those with shortfalls. On the other hand, a raise targeted on enlisted careerists—such as the graduated plan—would be cheaper yet would still result in more careerists. The Congress may also need to consider some increases in recruit pay—peshaps through a new specialty pay for selected skills—in order to give the services a better chance of meeting their recruiting goals.

Clearly, the costs and effectiveness of the all-volunteer military are being carefully scrutinized by the Congress. Our results suggest that the type and scope of the pay raise will influence both those costs and the ability of the volunteer system to meet recruiting and caseer retention goals. Thus, the decisions made by this Subcommittee and the Congress on this and subsequent pay raises could be an important factor in the ultimate success or failure of the all-volunteer force.

TABLE A-1 —NUMBERS OF ENLISTED CAREERISTS ASSUMING NO SPECIAL PAY RAISES, FISCAL YEARS 1980-86 [1]

[In thousands]

	1980	1982	1983	1984	1985	1986	Objective (established December 1980)
Army	273	291	300	315	320	326	281
Navy	194	209	213	219	227	232	218
Marine Corps	47	53	55	58	61	63	50
Air Force	232	225	225	228	234	239	210
All services	746	778	793	820	842	860	759

[1] Careerists are defined as those with more than 4 years of service.

TABLE A-2.—PERCENTAGES OF MALE, NONPRIOR-SERVICE RECRUITS HOLDING HIGH SCHOOL DIPLOMAS, ASSUMING NO SPECIAL PAY RAISE, FISCAL YEARS 1982-86 [1]

	1982	1983	1984	1985	1986
Army	60	54	56	55	53
Navy	73	78	73	70	70
Marine Corps	74	73	70	69	66
Air Force	71	86	81	66	68
All services	68	70	68	63	63

[1] Percentages assume continuation of test-score constraints now specified in law

TABLE A-3.—EFFECTS OF ALTERNATIVE ASSUMPTIONS ON PERCENTAGES OF MALE, NON-PRIOR-SERVICE ARMY RECRUITS HOLDING HIGH SCHOOL DIPLOMAS, FISCAL YEARS 1982-86

	1982	1983	1984	1985	1986
Base case [1]	60	54	56	55	53
Base case but higher end strengths [2]	53	45	49	46	44
Base case, but lower unemployment [3]	60	53	54	52	50
Base case, but 30 percent category IV	66	66	68	67	65

[1] Base case assumes no 5.3 percent increase and no pay raises beyond those needed to keep pace with increases in the private sector. Enlistment bonuses assumed to remain at 1981 levels. Test-score constraints specified in current law remain in effect, and end strengths remain at roughly the levels proposed by the administration for 1982

[2] Army's end-strength increases by about 20,000 a year, beginning in 1982.

[3] This case assumes the administration's 5-yr unemployment assumptions, which show overall unemployment declining to 5.6 percent by 1986. Base case assumes unemployment remains at about 7 percent by 1986, which is consistent with CBO's latest economic assumptions.

Senator JEPSEN. You say that without a specialty pay raise the Army could fall short of recruiting goals in fiscal year 1982. Assuming the targeted pay raise for the enlisted career force exceeds comparability, would increased retention of prior-service accessions make up for the shortfall, do you think, in recruiting?

Mr. HALE. That is possible. We did figure those in our analysis of the graduated pay plan and the the Army came quite close to its recruiting goals. It is certainly possible that improvement in prior-service accessions, or perhaps some other personnel changes, would allow the Army to meet its goals. It will come close enough to have a shot at it. I think the issue in 1983 is clearer. Unless additional incentives are provided, it will be very difficult for the Army to meet both its numerical and quality recruiting goals.

Senator COHEN. Could I ask one question, Mr. Chairman.

Senator JEPSEN. Go ahead.

Senator COHEN. If you factor into that equation the restriction on category IV's and also the 25 percent prior service and you include a targeted provision, do you still come to the same conclusion?

Mr. HALE. We do. Those are the numbers I gave. We estimated that with a graduated raise in fiscal year 1982 ranging from 4 percent for E-4's going up to around 6.5 percent for E-7's and E-9's about 63 percent of male recruits holding high school diplomas and they could meet the limitation that no more than 25 percent were category IV. It did figure in the quality goals.

Senator COHEN. And 65 percent have high school diplomas?

Mr. HALE. Our estimate was 63 percent. They could fall slightly short but I think it is fair to say they are close enough that other personnel policies, for example, in the attempt to increase prior

service enlistments, might allow them to cut down on their demand and so meet the 65 percent goal. It will be close.

Senator COHEN. You have also testified about the House Committee. I was wondering whether or not you would come to the conclusion that this committee should move rather cautiously before proceeding to this kind of micromanagement as far as taking action, for example, to either contradict or alter the across-the-board pay proposal for, let us say, July in terms of trying to achieve those results? Should we move more cautiously in your judgment?

Mr. HALE. You may want to exercise caution in choosing between a targeted or across-the-board raise as far as quality goals are concerned since there are substantial amounts of money involved. Across-the-board raises in particular appear to be further increasing the number of careerists.

Senator COHEN. We are making some changes. Last year we had the change in the category IV's.

Mr. HALE. Right.

Senator COHEN. We also indicated we were going to move toward a reduction in the non-high school graduates in each service. We added a further restriction this year in the category IV plus each service having the 65-percent high school requirement. We are continually ratcheting it down and I agree with that goal. If you then take into account the change in the across-the-board approach, it may have untoward consequences as far as the committee or this Congress is concerned. We are not sure exactly what the result will be. It seems to me, looking over your testimony before the House and before this committee, that we ought to at least give some consideration to the direction we are going rather than just taking action and saying we are not going to go across the board, we are going to start targeting, without fully examining what the consequences will be.

Mr. HALE. That might be particularly true with regard to the incentives you are offering recruits.

Senator COHEN. This is a dual problem that we face. I think it was touched upon earlier in testimony before the committee; namely, that it is probably easier to attract young people into the officer corps, and into highly technical skills which can then be transferable at a later time. Yet because their skills give them more promise of later rewards, they are more difficult to retain. How do you propose we structure our pay to deal with that problem?

Mr. HALE. We offered a couple of possible examples. The administration has, of course, recommended the use of enlistment bonuses. I understand there are some important misgivings by the subcommittee on that. Another possibility that might meet some of those misgivings would be some form of specialty pay aimed at those people entering rigorous and demanding skills that do not offer training that is transferable to the private sector. The specialty pay could be offered in monthly payments spread over the term of the enlistment. That would avoid putting all the money up front and would minimize losses from those who left the service before the end of their first term.

The Army might also want to consider faster promotions in the first term for high-quality recruits who have achieved proficiency in shortage skill areas, perhaps promoting them more quickly to E–2, E–3, and even E–4 during their first term. There may also be other

ways to meet these needs. Particularly if the quality goals are left in place in 1983, some further improvements in pay will be needed if the Army is to meet its recruiting goals.

Senator COHEN. A CBO study which was released earlier this year indicated that the range in the field of compensation if you go to a targeted proposal would be about $5 billion, and it might go as high as $22 billion if you continue with an across-the-board approach. What factors did you take into account? Does that take into account retirement as well?

Mr. HALE. No; it did not. We looked only at the cost of pay and allowances. Certainly retirement costs would be substantially affected, but they were not included in those estimates.

Senator COHEN. What factors did you take into account in reaching the conclusion of a spread of $5 billion to $22?

Mr. HALE. We used as a baseline our projection of recruiting success in the absence of any special pay increases. We then used historical factors to estimate how much added—in this case we assumed for the targeted raises they were in the form of enlistment bonuses—the amount of added enlistment bonuses that would be required to induce enough additional people to join the service to meet those goals. That was the targeted calculation based essentially on historical recruiting results.

Our estimate for an across-the-board pay raise were based on similar historical results about how people react to pay. With across-the-board raises you get two effects. Retention improves, and that cuts down on the demand for recruits. Of course, the added pay also induces more people to join. That was the essence of those calculations.

Senator COHEN. Do you think we should try to place emphasis or military manpower managers ought to give more emphasis, to increasing the career force?

Mr. HALE. I think an argument can be made for increasing the career force. There seems to be an increasing demand for highly technical people who are experienced in operating complex equipment. A case could probably also be made on cost-effectiveness grounds. It is obviously becoming more difficult to recruit high-quality people, and we can cut down the demand for recruits if we have a larger career force.

If we are going to expand the career force substantially, it may be worth looking again at whether a more flexible retirement system is more appropriate. The current system, as you know, offers no benefits to those with fewer than 20 years of service. Moving to a system that offered benefits after, say 5 to 10 years of service might improve retention of critical midcareer personnel but not necessarily allow them to stay for 20 year retirement. We don't have that flexibility right now. Such a change might be desirable if we want a substantially larger career force.

Sneator COHEN. You say also that you would like to see some expansion of the reallocation authority to apply to different skills?

Mr. HALE. That was not something we had addressed although it is clear that the retention problems in the enlisted career force are probably related more to skill areas than to pay grade. So, if the reallocation authority is used to try to make up those shortages, it would be helpful to reallocate by skill. It may be equally sensible

to use the reenlistment bonus program and other special pays to address those problems.

Senator COHEN. If you were to break down the proposed pay raise into special pay or bonuses what kind of recommendation would you make in terms of the formula itself? What is the proper mix?

Mr. HALE. I don't have a simple answer to that. It seems that at this juncture you would want to provide a raise that keeps pace with civilian pay, probably something in the 9 to 10 percent range, as the administration's planning figure suggests for October.

Senator COHEN. In addition to the 5.3?

Mr. HALE. I think that given the increase in overall numbers of careerists much of the added money for the career force could be targeted on the skill areas in which there are shortages. Similarly, the recruiting problems are not across the board. They tend to be centered in the combat arms in the Army, with fewer recruiting problems certainly in the Air Force. Therefore, you could make an argument that any added pay for recruiting should be targeted on those occupations that are hardest to fill.

Senator COHEN. Would it make sense in your judgment to have an across-the-board 5.3 in July to try to establish some notion of comparability and then when you get to October to designate a portion of that for an across-the-board lower amount but leave to the services the ability and authority to designate those areas where they have most critical shortages and in fact give them some discretion in that field to allow them to try to produce the results they are looking for? Does that make sense?

Mr. HALE. What we are talking about here is a question of timing. You may want a 5.3 percent across-the-board raise now and a targeted increase in October. The exact timing is difficult to comment on from an analytical standpoint. One factor in the decision may well be the morale considerations you have heard today—whether people will feel wronged if the July increase is denied. If you were to give the 5.3 percent now, use part of the 9.1 to reach comparability in October, and target the rest you could accomplish many of the goals that the targeted options seek to achieve.

Senator COHEN. It is notable to me that during the past 2 years we have made substantial gains in reversing the so-called hemorrhage in the Navy, even though the Navy does have a different problem and may not be able to meet their goals until 1984 which is your testimony.

Mr. HALE. Their currently established goals.

Senator COHEN. That we have made substantial gains in reversing the downward trend, that we have picked up morale substantially. I think the mood is such in the field that we have a Congress that has in fact now become sensitive to what has taken place over the past 8 or 10 years in the erosion of pay. Now that you have this awareness, from the recent figures being released, retention is up, recruitment goals seem to be met, are we so enthused that we can now increase the end strength even more to take into account the increased possibility that things seem to be going in the right direction?

What I am afraid of is that once again we will take a short-term view and start engaging in micromanagement from this end and produce, perhaps, results that we do not fully intend to see.

I would like, Mr. Chairman, to express a personal opinion. I think things are going in the right direction now. They are going in the

right direction because of this committee's initiative, in the past 2 years. While we recognize there are limits and there are finite limitations to the amount of money we can spend, we can't afford to continue to allow what has taken place over the past 10 years as far as deterioration of our capability to continue. We have turned that around somewhat. I would like to see it continue in the same direction if we can in fact have the 5.3. There is nothing particularly magic about it other than that it is a sign and signal to the people in the military that we are moving in the right direction. Then perhaps in October, when the bigger pay raise comes up, we could split it and put in an across-the-board pay raise and leave the discretion to the service chiefs to try to target some of that.

My own judgment is that that is the better course to pursue rather than taking a peremptory judgment or position now to cut that new trend off. Do you agree with that? You nodded throughout.

Mr. HALE. Again, I think the exact timing of the raise is probably beyond an analyst's judgment. It may well depend on the qualitative considerations you have expressed.

Senator COHEN. You do agree there has been significant reversal of the trend up to the past 2 years as a result of sea and submarine pay initiatives?

Mr. HALE. Particularly in career retention and indeed we are having a very good year for recruiting in 1981. The problem is that the quality goals will become more binding in 1983, for the Army in particular. That is going to be the most difficult problem the Congress will have to face.

Senator COHEN. That is all I have, Mr. Chairman.

Senator JEPSEN. The Department of Defense has requested an increase in enlistment bonus up to a maximum of $10,000. It went from 3 to 5 and now has gone to 10. Do you recommend that? What do your statistics indicate we need to do that?

Mr. HALE. The use of enlistment bonuses is certainly one way to meet recruiting shortfalls. Cash does seem, at least based on the historical studies that we have available, to appeal to young recruits. I understand the concerns of the subcommittee about the size of the bonus and also the possibility that some people will leave before completing their first term of service. Indeed, that is why we included in our testimony another alternative that you might want to consider, a specialty pay for new recruits that would spread out over the first enlistment term.

Senator JEPSEN. Thank you very much.

Mr. HALE. Thank you, Mr. Chairman.

Senator JEPSEN. Now, Dr. Kenneth J. Coffey, General Accounting Office.

STATEMENT OF DR. KENNETH J. COFFEY, ASSOCIATE DIRECTOR (MILITARY), FEDERAL PERSONNEL AND COMPENSATION DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Dr. COFFEY. It is very late in the day. What are your desires in terms of time? I can certainly submit the statement for the record but also paraphrase and reduce my statement.

Senator JEPSEN. We have covered a lot of territory here today. I would hope that you could make a statement for the record and we will put it in as if read and then why not just talk about the subjects that there have been questions on and as they apply or as your Department has addressed them.

Dr. COFFEY. Let me first comment that we attempted to analyze the potential impact of an across-the-board pay raise on problems in military service, particularly problems of retention. We asked to what extent would an across-the-board raise correct these problems or impact on them? The first thing we noticed was that during the 8 years of the All-Volunteer Force, the career force has not had a significant reduction, and in fact, in aggregate it is larger now than it has been. But when you look at the composition of the career force there are two major problems.

You could call the first one a grade and year in service imbalance problem and the second one a skill imbalance problem. Imbalance means that there are groups that are both over as well as groups that are under their authorized levels. When you look at the grades and year of service, you see that there is a very real shortage of senior NCO's. At the same time there is a large surplus of more junior NCO's, those between 5 and 12 years of service.

The shortage of senior NCO's really is a phenomenon of the Vietnam era when these people, who were then junior NCO's, were leaving the service in larger than normal numbers.

The second thing we recognized is that, about 85 percent of the senior NCO's who reach 13 years of service will continue to retirement regardless of whether you give them additional pay raises or not. So, the group you are talking about impacting on is perhaps the 15 percent who are leaving some time between their current service and time of retirement.

If on the other hand, you look at the junior NCO group who are already in surplus numbers, and ask the question, what impact would a pay raise have on that group, you can see very clearly that it could well be causing an even greater problem in future years as that group ages. If there are no further impacts on the size of the junior group you will be facing a problem of a surplus senior NCO group 5 to 10 years down the pike as this group ages. So, through an across-the-board devise you may be causing more junior NCO's to stay in the service. Because the marginal group you impact upon is far larger in the junior NCO arena than in the senior NCO arena, you may well be causing problems in future years without doing much to overcome the current problems, the shortage of senior NCO's.

The second problem area, that of skill imbalances, is again one of overages and underages. We have identified three types of skill imbalances to be concerned about. The first are those skills that require a great deal of training and are highly marketable in the outside economy. We most often talk about the aircraft mechanics, the highly trained electronic technicians and the like.

The second group of skills we often talk about, but perhaps not as much as the previous group, are those skills where they are shortages because the jobs just are not very nice. There is no great marketability on the outside for these skills and would people rather not be in the hot boilerroom, and they would rather not be trudging through

the woods in the infantry. They would rather be in a much nicer environment.

The third group that we don't talk much about is the group that is in surplus, and in each of the services there are good numbers of skill groupings where they simply have too many people. Overall there are enough NCO's, but a combination of a shortages of certain skills means simply that there is a surplus of others. This causes very severe manning utilization problems. You have too many people in the administrative areas, cooks and the like, and too few people with the technical skills.

What impact would an across-the-board pay increase have on these skills? For skills that are highly marketable, where people are facing, in many cases, opportunities to double or triple their salaries, the 5.3 or some combination there of would have very little impact. The people that it would have the most impact on, in our judgment, are those people who are not marketable on the outside and who are probably already in skills where there are surpluses. This would cause those surpluses to get even larger, and would not be in the long-term interest of the services.

Senator, our advice on this problem is simply that the services move in the direction of management by skill and occupation. The services need to recognize these kinds of differences, and tailor programs, above and beyond an equitable living wage, that addresses problems such as skill and grade unique problems and moves in the direction of resolving those problems through special devices and programs which we list in the testimony.

The other area we addressed dealt with military pay comparability. In this context I would like to make one point of clarification. Throughout the testimony today we have heard a variety of people speak about the need to bring military salaries up to, and maintained, at the cost of living and that inflation guides are the guide that should be maintained. I must point out that although keeping up with inflation may have been an overriding intent, it is not the letter of the law. The law states that military salaries should be maintained at a level comparable to civilian salaries. If civilian salaries are not keeping pace with inflation, then by definition the military salaries should not either. In the process set up where they are addressing the average wages in the civilian sector and then relating it to Federal civil service scales and military scales, there is very little difference at present between what the military is being paid and what these surveys show.

Senator JEPSEN. Excuse me. Repeat the last sentence.

Dr. COFFEY. There is very little difference between what the military currently is being paid and the level that the so-called PATC survey, which is the official determination of wage levels, shows they should be paid. About a year ago that difference was 4 percent and there is now a general agreement that the various extra pays that have been awarded over the past year, Nunn-Warner and others, have reduced that gap to 1 percent or less.

Now that is not to say that military salaries are keeping pace with inflation. It is to say that no one else on average is keeping pace with inflation either. So the danger you run into, using inflation as the guide rather than the average of what civilian working men

and women are making, is that you are setting up the services in an abnormally rewarding situation. They would be one of the few groups in the country where people were indeed keeping pace with inflation.

Senator JEPSEN. What I think I understand you to say is essentially one way or another many of us on the committee are asking the questions kind of half way, think we know the answer but not getting, not really getting, the answer you just gave, and that is in comparison with PATC, or professional, administrative, technical and clerical, they have pretty well closed the gap, there isn't much difference.

Dr. COFFEY. Senator, we agree that the military services are facing serious manpower problems, but the question in our view is how to deal with them in the most cost effective and efficient manner. In our view, it is not through an across-the-board pay increase. Rather it is through management by skill that would address specific overage and shortages, problems. This would be over and above maintaining an equitable, reasonable standard of living which we submit should be viewed on the basis of current legislation which calls for the use of the PATC survey.

If you take that approach and you are then looking at these problems in the context of skills or skill groupings, which incidentally is the way that the British, the Canadians, and Australians have done since they moved to all-volunteer forces, a variety of skill or occupational unique solutions appear worthy of consideration. This is because there are unique problems associated with specific skills that can then be addressed. Many of these problems simply cannot be addressed on an across-the-board basis.

We have, in our testimony, a variety of ideas that we thought were worthy of mention and study. In my view, one of the most noteworthy concern outplacement training for people in the hard to fill skills. These are the dirty jobs that people don't want to be in. They have no transferable skills to the outside. In previous years the services, in varying degrees, said to men and women that if you are willing to do these dirty jobs and you sign up for 4 years, we will spend the last 6 months or the last year or some significant period of time giving you a skill that is transferable to the outside. I think this can only be done using the kind of management by skill we are urging.

In contrast, some people already have highly marketable skills. Here there are various other ways that you could address recruitment and retention of their problems, most having to do with insuring that their skills are kept competitive so that at the appropriate point they can move to the civilian economy.

Another idea we thought had particular merit was really considering those things that could be done to utilize the post-20 year service group. We recognize that some NCO's stay beyond 20 years but most of them at that point are in supervisory positions. They are not really using their skills.

Arrangements could be made for people who are retiring to stay in the service, but not as a supervisor but rather to get out on the production line and get their hands dirty once again. We hear stories, particularly about the Navy, where various corporations are hiring chiefs who retired after 20 years to be technical representatives. These retired chiefs then become highly paid technical people who go back to sea working for the companies, getting their hands dirty

once again. It seem, to me that the services, with some imagination, could think up programs that could be as lucrative and as attractive as those kinds of arrangements offered by the companies which provide technical representatives.

In summary we have a lot of things that we hope you will review in the testimony. We feel the critical issue is one of flexible management, of providing the services with the means to address problems, and at the same time doing so in the context of not locking in these solutions for now and evermore, but rather to give them the ways and means to address a problem, which is a problem today and may not be a problem tomorrow. We know that this is very ambitious but we believe it is the only way in the long run that we are ever going to manage the forces in a cost efficient and probably successful way.

I will conclude my remarks by paraphrasing a recent editorial which appeared on March 27 in the Louisville Courier Journal which said it is time for the armed services to face economic reality. The services must compete in the job market against industries that are looking for the same kinds of people they are trying to recruit and keep. This will mean that increasingly pay raises must be targeted to meet shortages of people with specific skills. Across-the-board pay raises may also occasionally be needed but more and more the services need to manage their personnel structure and pay policies on an occupation by occupation basis. We wholeheartedly agree with that and hope we can move in that direction.

[The prepared statement of Dr. Coffey follows:]

PREPARED STATEMENT OF DR. KENNETH J. COFFEY, ASSOCIATE DIRECTOR (MILITARY), FEDERAL PERSONNEL AND COMPENSATION DIVISION

Mr. Chairman and Members of the Subcommittee: We appreciate the opportunity to be here to present our views on several important and interrelated issues concerning military compensation and manpower policies. Foremost among these is the appropriateness of the President's proposed across-the-board pay raises to take effect this year.

This issue is very much interrelated with other manpower management and compensation issues that we, and others, have addressed over the past several years. These include: (1) instituting a military salary system to replace the antiquated and little understood pay and allowances system, (2) adopting manpower management models tailored to the needs of individual military occupations and structuring military pay on an occupational basis, (3) problems created by requiring the military to manage against year-end personnel strength figures, (4) questions of whether the objective enlisted force composition, with its years-of-service and rank/grade distribution, properly state the Services' actual needs to provide the personnel for a cost-effective force, and (5) reforming the retirement system so that it would work for, rather than against, military manpower objectives.

I recognize that what I have just recited for you is a broad and far-reaching agenda of issues that have been, and continue to need to be, addressed. While my specific focus today is on the proposed across-the-board pay raises, we are concerned that pay is only part of the problem, and until these management issues are resolved, the military will continue to experience manpower problems regardless of rhe short-term fixes it trys to apply. We include the proposed 5.3 percent and 9.1 percent pay raises in the category of short-term fixes.

ACROSS-THE-BOARD PAY INCREASES

On March 10, 1981, the President submitted to the Congress the administration's revised fiscal year 1982 budget. The administration proposed a 5.3 percent pay raise for military personnel in July 1981 in addition to the proposed 9.1 percent October 1981 pay raise included in the prior administration's budget. These pay increases are on top of an 11.7 percent across-the-board raise which became effective in October 1980. A 5.3 percent pay raise will add $400 million

to the fiscal year 1981 budget and $1.9 billion to the 1982 budget. The proposed October 1981 raise of 9.1 percent is greater than the 4.8 percent increase proposed for other Federal workers. The cost of this extra 4.3 percent would add another $1.6 billion to the 1982 Defense budget. In total then, the administration has proposed spending an extra $3.9 billion for military pay increases during fiscal years 1981 and 1982.

The President's revised budget stated that these across-the-board pay raises are needed to "reduce the outflow of experienced personnel from the Armed Services."

Before reaching any conclusions as to the reasonableness of, or need for, these proposed pay increases, I believe we need to examine more carefully the nature of the manpower problems facing the military and try to define them more specifically. This should enable us to see more clearly whether the proposed across-the-board pay raises will solve the problems or whether some other alternative approaches might be more appropriate. In this regard, I would like to examine with you what (1) the current career force profile looks like and what short- and long-term impact the raises would likely have on the career force, (2) military skills are in short supply and what the likelihood is that across-the-board pay raises will correct skill imbalances, and (3) the civilian and military pay differences are for comparable occupations.

IMPACT OF PAY RAISE ON CAREER FORCE PROFILE

In spite of widespread perceptions about recent trends, the fact is that the active duty enlisted force has been quite stable in size since the beginning of the All-Volunteer Force. In fact, during the 8-year period of the All-Volunteer Force, the military Services have never been more than 1.5 percent below funded authorized strength levels. As of the end of fiscal year 1980, the Services had 99.9 percent of their authorized strength.

In addition to overall strength levels, the career force has also remained quite stable. Since 1974, the Army career force has increased by over 45,000 soldiers to a level where a record 40 percent of the force has over 4 years of service. The Navy and Marine Corps career force has remained relatively constant, and the Air Force career force has gone down somewhat in absolute terms, but as a percentage of the total enlisted personnel, its career force has also increased.

Therefore, in addition to maintaining a relatively stable end-strength, in aggregate, the career force has also remained quite stable, increasing somewhat both in absolute terms and as a percentage of total enlisted personnel. The career force is important because that is where the skilled technical people are.

As you begin to break apart the components of the career force and look at those with 5 to 12 years of service and those with 13 to 30 years of service, you begin to get a somewhat different picture. Between 1972 and 1979, the number of people with 13 to 30 years of service declined quite sharply to slightly over 270,000. For the most part, this decline was caused by the retirement of those personnel who had 12 or more years of service during the closing years of the Vietnam War. Thus, much of this deduction was a normal process of people leaving the Service after a full career, rather than for dissatisfaction with pay or other aspects of Service life.

At the same time, however, in the late 1960's and early 1970's, reenlistment among personnel with 5 to 12 years of service declined quite severely. Consquently, what we are seeing now is not necessarily a mass exodus of senior NCO's as would appear on the surface, but rather normal attrition from what is an abnormally small cohort of senior NCO's the result of low reenlistment rates in the group which had 5 to 12 years of service in the early 1970's. Recognizing that about 85 percent of the people who reach their 13th year of service stay for 20 years to take advantage of the generous retirement benefits and only a few remain in the Service beyond 20 years, we believe that the proposed pay raises would have only marginal impact on keeping more senior NCO's in the Services.

On the other hand, in recent years, from about 1973 through 1979, the number of people with 5 to 12 years of service had gone up rather sharply to about 470,000 in 1979. Assuming that the continuation rates for this group remains at historical levels, we can expect in the future to see a turnaround in the numbers in the 13 to 30 years of service group with surpluses of senior NCO's. This will likely happen whether or not added pay increases are authorized and to the extent that across-the-board pay raises cause people in the 5-to 12-year group to remain, it could exacerbate the future 13- to 30-year manning problem.

Therefore, on an aggregate basis, across- the-board pay raises would have very little impact on the current 13 to 30 years of service group—the group receiving the most public attention–since most of these people will stay until retirement

anyway. In contrast, however, the pay raises would influence more people in the 5- to 12-year group to remain in the service longer than they otherwise would have, thus increasing the overall size of the career force but likely causing an even greater surplus of senior NCO's in future years than might otherwise result. Further, we are not convinced that the across-the-board pay raises will influence the right people—those needed to meet specific manning requirements—to remain in the Service.

IMPACT OF PAY RAISES ON SKILL SHORTAGES

As we have seen, the active duty career force has remained quite stable since 1973 and, on an aggregate basis, is fully manned. So, what exactly are the manpower problems the Defense Department hopes to solve with across-the-board pay raises? Our discussions with Defense officials and analysis of manpower documents indicate that the basic problem is not one of gross numbers, but rather one of skill imbalances—shortages in some skills or occupations and surpluses in others.

Even here, the problems vary from Service-to-Service, from grade to grade, and from occupation-to-occupation. However, they can generally be categorized as (1) shortages in skills that are highly marketable in the civilian economy, (2) shortages in skills that are not marketable in the civilian economy, but which are generally thought of as being unpleasant or unattractive, and (3) skills or occupations which are relatively easy to fill and which are generally in a surplus position.

Each Service has certain skills that are quite technical in nature, require a sizable training investment, and are also highly marketable in the civilian economy—often at salaries which substantially exceed those offered by the Services. For example, a recent Air Force study indicates that it is short over 3,000 E–5's through E–7's in 48 critical skills. These shortages are primarily in "sortie producing" skills—skills which support the flying of aircraft—such as avionics skills, aircraft maintenance, electronics specialists, and communications specialists. Many of these skills are highly marketable in the civilian economy, particularly in the airline, general aviation, and electronics industries. The Navy also has shortages in skills that are highly marketable, such as operation specialists, nuclear technicians, and, to a lesser extent, machinist mates, radar and sonar technicians, and people in the computer operating field. The Army is short of air traffic radar controllers, maintenance mechanics, and other skills of a similar nature which are in demand in the civilian economy. To retain individuals with these skills will, in our opinion, require a different set of solutions than is required to retain people without marketable skills. For example, large monetary incentives, far larger than the proposed across-the-board increases, along with other tailored emoluments, may be needed to keep these people.

Each Service also has shortages in skills which are generally thought of as being unpleasant or unattractive for whatever reason—possibly because of an unpleasant working environment, long family separations, or because it is a skill without any demand in the civilian economy. The Navy, for example, has a shortage of over 500 boiler technicians. While being a boiler technician does not require a heavy training investment, the working environment—in the engine room of a ship—is not generally pleasant, particularly in diesel-powered ships. The Army has had a chronic problem filling its combat arms positions—skills that are both dangerous and without a civilian occupation counterpart. Solutions to these problems will obviously require an innovative set of solutions which may differ substantially from the kinds of incentives needed to keep people with marketable skills.

Finally, there are some skills in all of the Services which are relatively easy to fill and which are generally in a surplus position. These would include administrative clerks and other similar occupations. The Army, for example, has too many material control and accounting specialists, material storage and handling specialists, and behavioral science specialists. Incidentally, one reason people with these types of skills stay in the Services is because they are generally paid more in the Service than their age and occupation counterparts are paid in the private sector. One problem facing the Services, then, is how to get the people into the skills where they need them most. The answer is obviously not by giving them more money to stay in the skills where there are already surpluses. Rather, other solutions need to be found to correct the skill imbalance problem.

In summary, on an aggregate basis, each Service is essentially fully manned at their authorized strength levels. However, the mix of skills and grades—which

the Services equate to experience—is out of balance with large surpluses in some skills and equally large shortages in others.

For the most part, each Service has computed these skill shortages based on Defense Department authorized and funded manpower levels. The Navy, however, has taken this computation one step further and cites a 22,000 petty officer shortage based on their desired grade structure in an unconstrained budget environment. There has been, and continues to be, however, some dispute within the Defense Department regarding the reasonableness of the Navy's desired grade structure and, so far, the Defense Department has not seen fit to fund these petty officer positions. Therefore, even if suitable candidates were available, they could not be promoted, and the Navy has limited its annual grade requests to those it can maintain.

If the other Services computed their manpower levels based on desired grade structure in an unconstrained budget environment, as has the Navy, their NCO shortages would no doubt be somewhat greater than current manning documents indicate. Therefore, aside from the need for better consistency among the Services in citing their manpower shortage problems, the primary issue here is whether manpower requirements statements by the Defense Department and the various Services accurately reflect their real manpower needs. Does the Navy's criteria more appropriately reflect the true manpower needs and should this criteria be expanded to the other Services, or are the constrained criteria more appropriate and realistic? We believe that this is an important first question which must be resolved before major actions are taken to correct problems that have not yet been well defined.

The issue of the impact of the previous across-the-board pay raise also is still in doubt. Defense officials testified in March 1981 that the 11.7 percent increase effective last October has improved retention rates. Yet, it is too early, if not impossible, to tell how much of this increase can be attributed to the October across-the-board pay raise or how much is attributable to other significant benefit increases which were also provided in October. Furthermore, although overall retention rates may be up, the real question is: did the pay raise help the skill imbalance problem? So far, the Defense Department has not produced evidence to suggest that the October raise contributed to solving this problem in any of the Services. In more specific terms, has the increased retention been among those critically short skills or has it caused response more from those groups already in surplus? We believe that before another substantial across-the-board pay raise is given, Defense also should be required to answer these questions.

The skill imbalance problem is caused by a variety of factors, some of which I have alluded to earlier. However, I would like to mention one factor, which, while not a direct cause of skill imbalances, does exacerbate any skill imbalance problem which might exist. I am referring to the requirement that the military Services manage against a specific year-end strength number. In some instances, the Services reenlist individuals in surplus skill categories simply to meet the year-end strength number if they cannot get a sufficient number of people for skill shortage fields. This practice satisfies the year-end requirement, but it overloads a skill which is already in surplus and uses up positions that should remain available for people with the skills which are in short supply. We believe that, at the very least, a better way would be to manage by average man-years and, even better, would be to manage by average man-years by skill.

CIVILIAN/MILITARY PAY COMPARABILITY

Secretary Weinberger has stated that the administration is committed to restoring pay comparability between military personnel and their civilian counterparts. Comparability is an extremely complex matter, and I will not take the time here to get into all the intricacies of how comparability is computed. However, let me describe briefly what the current situation is in this regard.

The professional, administrative, technical, and clerical index—commonly referred to as the PATC index—of the Bureau of Labor Statistics is used to adjust Federal civilian pay raises, and pay raises for the military have been linked by law to the pay raises of Federal civilians, except for the October 1980 pay raise. At the beginning of the All-Volunteer Force, regular military compensation (RMC)—the military equivalent to a civilian salary—and the PATC index started at approximately the same point, somewhat above the Consumer Price Index. RMC and Federal civilian pay soon began to drop in relation to the PATC index and continued to drop throughout the 1974 through 1980 time period. The reason for this was a series of pay caps which prevented either Federal civilian or military

pay from increasing as much as the PATC index. By 1979, RMC had fallen 8 percent below the level of PATC. However, the October 1980 pay raise of 12.7 percent (including the increase in subsistence allowance) reduced the difference between RMC and the PATC index to about 4 percent.

First, I would like to offer the comment that we are not at all convinced that the PATC index is an appropriate index for linking military pay raises with private sector increases. The PATC survey was specifically designed to provide a basis for setting Federal white-collar salaries and may be somewhat applicable for setting officer salaries. However, most enlisted job specialties encompass blue-collar skills, and, assuming that periodic comparability adjustments continue to be made, the adjustment mechanism for enlisted members should probably be tied to a blue-collar wage index such as is currently used for Federal blue-collar workers.

Nevertheless, since the PATC index is currently being used as the point of comparison between military and private sector salaries, I must point out that comparing RMC to the PATC index is only part of the story. This simple one-to-one comparison for military pay neglects to consider the many other pay and benefit items which increases a military member's take-home pay. These additional monies have grown substantially in number and value in recent years, but particularly with the increases authorized by the 96th Congress. These include:

Authority to pay a variable housing allowance to Service members living off-base in the continental United States. Service members living off-base at overseas locations receive other housing and cost-of-living allowances.

A 25-percent increase in aviation career incentive pay and enlisted flight pay.

A 15-percent increase in sea pay rates.

Authority to pay reenlistment bonuses to personnel with between 10 and 14 years of service.

Family separation pay for E–4's and below.

Authority to increase enlistment bonuses from $3,000 to $5,000 and selective reenlistment bonuses from $15,000 to $20,000.

Special pays for physicians.

Career sea pay for officers and enlisted men.

Overseas extension pay for members who extend their tour of duty in designated overseas locations.

This is by no means an all inclusive list of the pay and benefit items over and above RMC which are available to qualifying military members and which should be considered when discussing pay comparability. However, the following table, aggregated for all Services will give you an idea as to the importance of these other pays in relation to the cash components of RMC for fiscal year 1982.

	(billions)
Basic pay	$22.3
Basic allowance for quarters	2.7
Subsistence	2.7
Subtotal, cash component of RMC	27.7
Other pays and allowances	5.0
Total	32.7

As you can see, in aggregate, other pay and allowance items represent 18 percent of the cash component of RMC—a substantial amount which should be taken into account when considering the concept of comparability. Even by the Defense Department's own estimates, of the 4 percent difference which existed between RMC and the PATC index after the October 1980 pay raise, perhaps as much as 3 percent was made up, in aggregate, by the other pays. Thus, the real difference between the PATC index and military pay is very small.

Obviously, some individual members receive several of the additional pay items, and some, particularly those at the lower grade levels living in the barracks, may receive none. Unfortunately, the Services do not have data available to give a composite picture of how many members are receiving which pay items, but our guess is that a very small percentage of Service members, particularly in the the career force, receive only RMC.

I have attached to this statement several tables which give a more comprehensive picture of the major additional pay items which Service members receive, the number and percentage of people receiving them, and the range of rates for these additional pays. (See appendix I.)

I have also attached to this statement appendix II which gives some actual examples to illustrate the impact these additional pay and benefit items have on

total earnings for both officers and enlisted men. In addition, appendix III shows the estimated pay change for two critical Navy skills as a result of recent pay authorizations. It shows that from fiscal year 1980 to 1981 a Navy E-5 operations specialist received about a 63 percent raise and submarine nuclear propulsion technician received about a 30-percent pay raise.

Another way to look at comparability is to compare military pay for specific military specialties with comparable civilian occupations. Such a comparison recently done by GAO for 34 occupations showed that most varied considerably from their civilian counterpart—either higher or lower.

WHAT ARE THE ALTERNATIVES TO AN ACROSS-THE-BOARD PAY RAISE

We agree that the military Services are facing some serious manpower problems that need to be dealt with, but the question is how to deal with them in the most cost-effective and efficient manner. Some of the problems originated 8 to 10 years ago when reenlistments were at an extremely low level. In our view, it is highly unlikely that across-the-board pay raises will have much impact on the current problems resulting from that period. Further, we do not believe that an across-the-board approach is the best or most efficient way to solve the skill imbalance problems facing the military Services. Not only would such an approach have little positive impact, there is a high risk that it would only serve to make the situation worse in future years.

As I mentioned earlier in my statement, we believe that some fundamental changes are needed in the way military members are managed and paid. Because the proposed 5.3 percent pay raise is the immediate issue facing this committee, I did not address these fundamental changes in detail; however, we believe that until some basic military management concepts change—such as management by skill or occupation—and reforms are instituted with regard to both the pay and retirement systems, this committee and the Defense Department will continue to face the dilemma facing us today.

We fully recognize that fundamental changes will not come easily. Nevertheless, we believe that there are possible ways the military can improve its present manpower situation which would be more effective and less costly than an across-the-board pay raise. The new Army Enlisted Force Management Plan has suggested some ways to help overcome these manpower management problems. These include, among other things, (1) disassociating pay and grade for certain technical and skill dependent fields, (2) developing a program to selectively retain soldiers with 20-plus years of service in shortage skills, (3) developing a system to facilitate redistribution between Military Occupational Specialties to accommodate changing requirements, (4) using the promotion system as a motivator for reclassification and retention, and (5) using the retirement system to improve retention in critical skills.

In the past and today, promotion is too often viewed as the principal means of compensating an outstanding soldier. This has been to the detriment of the Services and the individual in the senior NCO grade, by promoting the soldier out of his occupational specialty and area of expertise and training investment. For this reason, the Army also plans to investigate decoupling grades alone for compensation and to rely more on performance and investment-based pay. We support these initiatives.

We believe that the key to solving many of the Services' manpower problems is to manage each skill individually and tailor specific solutions to specific problems. In this way, the Services could address shortage problems caused by competition from the private sector and by being unable to keep people in unattractive or unpleasant occupations. Management by skill would also help the Services deal with manpower surpluses where they exist. For example, for those skills which are highly marketable in the private sector, the Services could consider such things as:

More vigorously pursuing their recruiting outreach programs aimed at enlisting prior Service members already trained in critical skills. This may require more liberal implementation of the policies concerning bonuses for prior Service members and restoration of rank.

Increasing the use of tailored pay increases to attract and retain people with critically needed skills.

Developing specific skill management programs that would include strategically-timed training programs to coincide with reenlistment, a tailored promotion program which would keep people in their skill rather than to promote them out of it, and a benefit package that would be competitive with the industry counterpart.

Providing sufficient attraction, such as a lucrative bonus or extra-pay contract, to keep senior NCO's in critical skill shortages areas beyond the traditional 20-year retirement point. This may require some job restructuring to put these people, who are now supervisors, back on the production line.

For those skills which are not highly marketable, but which are short because the jobs are undesirable or unattractive, the Services might consider other incentive packages such as:

Providing variable career track options to encourage people to enlist or reenlist in specific unpleasant occupations. For example, if a person signed up for 2 years in the infantry, he would be given training for the second 2 years in a career of his choice.

Returning to a policy of selectively providing "outplacement" training in a civilian occupation for people in military occupations which have no private sector counterpart.

Making better use of post-service benefits to retain people in unglamorous skills for additional Service.

Those skills which are already in a surplus position should also be vigorously managed because, when the end-strength number is the critical number being managed against, for every skill surplus there must also be a countervailing skill shortage. Some things the Services might consider in this area could include:

More vigorously pursuing retraining programs for people in surplus skills to get them into jobs where they are needed. This could possibly be made a reenlistment requirement for people who wish to reenlist in noncritical skills.

Selectively using severance pay and deferred annuities to encourage untrainable people in surplus skills to leave the Service.

Again, developing specific skill management programs, but for these skills, limit future pay raises until pay in these occupations reflect the pay for these skills in the private economy.

Mr. Chairman, let me say that we are not against pay increases for military members. We believe that each Service member, regardless of skill or occupation, should be afforded a standard of living comparable to that of his or her peers in the private sector. However, beyond this minimum, we believe that each skill should be managed individually and pay and benefit packages tailored to attract and keep sufficient people to perform these critical jobs. In summary, I would like to paraphrase a recent editorial which appeared in the March 27, 1981, *Louisville Courier-Journal*, because I believe it very nicely summed up the manpower problems facing the military. The editorial indicated that people are beginning to believe more and more that, rather than across-the-board pay raises, future raises should be tailored to attract and keep people with critical skills. it went on to say that the military has resisted such a move because this would mean that some personnel with critical skills would be paid more than others of the same rank.

As the editorial noted, rank is vitally important to the military and should not be dismissed lightly. It is one tradition that gives military organizations cohesiveness. However, it is time for the Armed Services to face economic reality. The Services must compete in the job market against industries that are looking for the same kinds of people they are trying to recruit and keep. This will mean that, increasingly, pay raises must be targeted to meet shortages of people with specific skills. Across-the-board pay raises may also occasionally be needed, but, more and more, the Services need to manage their personnel structure and pay policies on an occupation-by-occupation basis.

Mr. Chairman, this concludes my formal statement. My colleagues and I would be happy to respond to any questions you may have.

APPENDIX I

TABLE 1.—LIST OF MAJOR PAY ITEMS IN ADDITION TO RMC AIR FORCE (OFFICERS)

	Number	Percent of officer force [1]	Range of rates [2]
Number of officers	101,209	100.0	
Variable housing allowance	60,576	59.9	$629–$1,581
Incentive pays	38,664	38.2	
Flying duty (crew members)	37,223		1,500–3,675
Flying duty (noncrew members)	1,100		1,320
Parachute jumping	55		1,320
Demolition duty	100		1,320
Other incentive pays	186		1,320
Special pays	11,367	11.2	
Variable special physicians pay	3,574		6,636
Board certified pay (physicians)	1,425		2,572
Retention additional special pay (physicians)	2,864		9,221
Incentive medical special pay	500		6,844
Dentist special pay	1,520		2,420
Dentist continuation pay	1,088		7,879
Optometrist special pay	176		1,200
Veterinarians	220		1,200
Station allowance, overseas	28,715	28.4	
Cost-of-living overseas allowance	7,568		1,069–2,091
Overseas housing allowance	6,785		1,029–7,803
Temporary lodging allowance	14,362		371

[1] Data is not currently available to indicate how many individual service members are receiving multiple special and incentive pays.

[2] Most dollar amounts represent an average amount or range as computed in the fiscal year 1982 service justification estimates. However, the maximum bonus amounts are identified for enlistment and reenlistment bonuses.

TABLE 2.—LIST OF MAJOR PAY ITEMS ADDITION TO RMC AIR FORCE (ENLISTED)

	Number	Percent of enlisted force [1]	Range of rates [2]
Number of enlisted	473,985	100.0	
Variable housing allowance	171,873	36.3	$682–$1,442
Incentive pays	13,560	2.9	
Flying duty (crew members)	9,900		732–1,572
Flying duty (noncrew members)	1,425		660
Parachute jumping	650		660
Demolition duty	1,100		660
Other incentive pays	485		660
Special pays	86,781	18.3	
Duty at certain places	51,300		96–270
Diving duty	3		780
Sea duty	5		192
Overseas extension pay	1,167		600
Proficiency pay shortage specialty	82		600–1,200
Proficiency pay special duty assignment	4,153		600–1,200
Reenlistment bonus (regular)	2,280		500–1,300
Selective reenlistment bonus	24,829		1,391–16,000
Enlistment bonus	2,962		1,278–50,000
Station allowance, overseas	155,012	32.7	
Cost-of-living	47,385		753–1,335
Single cost-of-living	24,933		320
Housing allowance	35,943		1,130–2,923
Temporary lodging allowance	46,751		350

[1] Data is not currently available to indicate how many individual service members are receiving multiple special and incentive pays.

[2] Most dollar amounts represent an average amount or range as computed in the fiscal year 1982 service justification estimates. However, the maximum bonus amounts are identified for enlistment and reenlistment bonuses.

TABLE 3.—LIST OF MAJOR PAY ITEMS IN ADDITION TO RMC ARMY (OFFICERS)

	Number	Percent of officer force [1]	Range of rates [2]
Number of officers	99,857	100.0	
Variable housing allowance	44,758	44.8	$342–$3,015
Incentive pays	16,510	16.5	
Flying duty (commissioned officers)	7,908		1,500–3,672
Flying duty (warrant officers)	5,533		1,500–3,000
Flying duty (noncrew members)	265		1,320
Parachute jumping	2,640		1,320
Demolition duty	162		1,320
Other incentive pays	2		1,320
Special pays	13,454	13.5	
Variable special physicians pay	4,711		6,497
Board certified pay (physicians)	2,001		2,909
Retention additional special pay (physicians)	3,372		9,297
Dentist special pay	1,820		2,521
Dentist continuation pay	970		9,635
Optometrist special pay	210		1,200
Veterinarians	365		1,200
Diving duty pay	5		1,320
Station allowance, overseas	26,308	26.3	
Cost-of-living	6,641		698–2,024
Housing allowance	7,098		761–7,488
Temporary lodging allowance	12,569		751

[1] Data is not currently available to indicate how many individual service members are receiving multiple special and incentive pays.

[2] Most dollar amounts represent an average amount or range as computed in the fiscal year 1982 service justification estimates. However, the maximum bonus amounts are identified for enlistment and reenlistment bonuses.

TABLE 4.—LIST OF MAJOR PAY ITEMS IN ADDITION TO RMC ARMY (ENLISTED)

	Number	Percent of enlisted force [1]	Range of rates [2]
Number of enlisted	670,477	100.0	
Variable housing allowance	170,835	25.4	$565–$1,199
Incentive pays	32,525	4.9	
Flying duty (crew members)	4,220		828–1,572
Flying duty (noncrew members)	2,600		660
Parachute jumping	24,860		660
Demolition duty	803		660
Other incentive pays	42		660
Special pays	177,201	26.4	
Duty at certain places	58,559		96–270
Diving duty pay	52		1,045
Overseas extension pay	2,094		600
Proficiency pay	45,802		
Reenlistment bonus (Regular)	1,118		721–920
Selective reenlistment bonus	43,104		972–16,000
Enlistment bonus	26,472		3,364–5,000
Station allowance, overseas	133,815	20.0	
Cost-of-living	61,303		100–903
Housing allowance	42,235		960–2,316
Temporary lodging allowance	30,277		940

[1] Data is not currently available to indicate how many individual service members are receiving multiple special and incentive pays.

[2] Most dollar amounts represent an average amount or range as computed in the fiscal year 1982 service justification estimates. However, the maximum bonus amounts are identified for enlistment and reenlistment bonuses.

TABLE 5.—LIST OF MAJOR PAY ITEMS IN ADDITION TO RMC NAVY (OFFICERS)

	Number	Percent of officer force [1]	Range of rates [2]
Number of officers	65,654	100.0	
Variable housing allowance	43,774	66.7	$611–$3,000
Incentive pays	28,097	42.8	
Flying duty (commissioned officers)	16,416		1,500–3,672
Flying duty, continuation pay	6,831		5,803–6,123
Flying duty (noncrew members)	65		1,320
Submarine duty	3,847		1,805–4,987
Parachute jumping	288		1,320
Demolition duty	320		1,320
Flight deck duty	270		1,320
Other incentive pays	60		1,320
Special pays	22,648	34.4	
Variable physicians special pay	3,622		5,796
Additional physician special pay	2,639		9,310
Board certified pay (physicians)	1,209		2,969
Dentist special pay	1,599		2,674
Dentist continuation pay	1,001		8,683
Optometrist special pay	149		1,200
Responsibility pay	900		1,289
Diving duty pay	296		1,320
Nuclear officer incentive pay	2,628		5,277
Career sea pay	8,105		1,984–3,536
Premium sea pay	500		1,200
Station allowance, overseas	8,755	13.3	
Cost-of-living	6,075		893
Housing allowance	2,680		2,703

[1] Data is not currently available to indicate how many individual service members are receiving multiple special and and incentive pays.

[2] Most dollar amounts represent an average amount or range as computed in the fiscal year 1982 service justification estimates. However, the maximum bonus amounts are identified for enlistment and reenlistment bonuses.

TABLE 6.—LIST OF MAJOR PAY ITEMS IN ADDITION TO RMC NAVY (ENLISTED)

	Number	Percent of enlisted force [1]	Range of rates [2]
Number of enlisted	476,086	100.0	
Variable housing allowance	172,652	36.3	$741–$1,450
Incentive pays	41,644	8.7	
Flying duty (crew members)	7,926		782–1,572
Flying duty (noncrew members)	441		660
Submarine duty	24,662		659–3,179
Parachute jumping	780		660
Demolition duty	850		660
Flight deck duty	6,820		660
Other incentive pays	165		660
Special pays	180,164	37.8	
Sea duty, career	91,085		1,021–3,195
Premium sea pay	5,917		1,200
Duty at certain places	25,133		96–270
Diving duty pay	1,658		1,120
Overseas extension pay	320		600
Proficiency pay	14,031		360–1,800
Reenlistment bonus	34,635		500–20,000
Enlistment bonus	7,385		1,693–5,000
Station allowance, overseas	63,509	13.3	
Cost-of-living	49,218		481
Housing allowance	14,291		1,437

[1] Data is not currently available to indicate how many individual service members are receiving multiple special and incentive pays.

[2] Most dollar amounts represent an average amount or range as computed in the fiscal year 1982 service justification estimates. However, the maximum bonus amounts are identified for enlistment and reenlistment bonuses.

TABLE 7.—LIST OF MAJOR PAY ITEMS IN ADDITION TO RMC MARINE CORPS (OFFICERS)

	Number	Percent of officer force [1]	Range of rates [2]
Number of officers	18,358	100.0	
Variable housing allowance	11,954	65.1	$657–$2,625
Incentive pays	7,140	38.9	
Flying duty (crew members, commissioned officers)	4,797		1,500– 3,675
Flying duty (crew members, warrant officers)	48		1,500– 3,000
Flying duty (noncrew members)	82		1,620
Continuation bonus	2,097		5,722
Parachute jumping	72		1,320
Demolition duty	44		1,320
Special pays	227	1.2	
Diving duty pay	36		1,320
Career sea pay	191		3,000
Station allowance, overseas	4,217	23.0	
Cost-of-living	3,142		413– 710
Housing allowance	750		2,209
Temporary lodging allowance	325		1,995

[1] Data is not currently available to indicate how many individual service members are receiving multiple special and incentive pays.

[2] Most dollar amounts represent an average amount or range as computed in the fiscal year 1982 service justification estimates. However, the maximum bonus amounts are identified for enlistment and reenlistment bonuses.

TABLE 8.—LIST OF MAJOR PAY ITEMS IN ADDITION TO RMC MARINE CORPS (ENLISTED)

	Number	Percent of enlisted force [1]	Range of rates [2]
Number of enlisted	171,656	100.0	
Variable housing allowance	40,719	23.7	$806–$1,238
Incentive pays	2,578	1.5	
Flying duty (crew members)	1,322		750– 1,563
Flying duty (noncrew members)	588		827
Parachute jumping	500		660
Demolition duty	168		660
Special pays	43,898	25.6	
Duty at certain places	27,026		96– 2,403
Diving duty pay	215		780
Overseas extension pay	560		600
Proficiency pay	4,098		360– 1,800
Reenlistment bonus	8,612		1,456–16,000
Enlistment bonus	3,387		3,000– 5,000
Station allowance, overseas	41,892	24.4	
Cost-of-living	39,022		267– 566
Housing allowance	2,087		1,828
Temporary lodging allowance	783		1,535

[1] Data is not currently available to indicate how many individual service members are receiving multiple special and incentive pays.

[2] Most dollar amounts represent an average amount or range as computed in the fiscal year 1982 service justification estimates. However, the maximum bonus amounts are identified for enlistment and reenlistment bonuses.

APPENDIX II

MILITARY PAY AND BENEFITS FOR SELECTED RANKS

LIST OF ABBREVIATIONS

ACIP—Aviation career incentive pay.
BAQ—Basic allowance for quarters.
BAS—Basic allowance for subsistence.
BP—Basic pay.
COLA—Cost-of-living allowance.
CMA—Clothing maintenance allowance.
FICA—Government's contribution to social security.
MED PAY—Medical pay.
Sep. Rat.—Separate rations.
SRB—Selective reenlistment bonus.
VHA—Variable housing allowance.

Service: Air Force.
Pay grade: E–4.
Over 4 years of service, married, receiving variable housing allowance.

Compensation:	
Cash pay elements:	
BP	$8,726
BAQ	2,473
BAS	983
CMA	90
VHA	1,142
Subtotal	13,415
Tax advantage	837
Benefits:	
Retirement (actuarial evaluation) [1]	4,299
Health care [2]	564
Commissary and exchange [3]	139
FICA [4]	580
Subtotal	5,582
Total	19,834

[1] Normal cost for military retirement is 49.27 percent. Normal cost computation based on economic assumptions that long-term average annual rates of inflation will be 5 percent, pay increases will be 5.5 percent, and the interest rate will be 6 percent.
[2] Estimate is probably underestimated because the data is not current. Based on actual per capita costs (fiscal year 1973) of $426.99 per service member and $230.57 per each dependent, escalated at 32 percent—the increase in total DOD spending for medical operations from fiscal year 1973 to fiscal year 1976.
[3] Estimate is probably underestimated because the data is not current. Based on per capita costs of appropriated funds for commissary and exchange operations. Per capita costs allocated only to active duty personnel.
[4] Government's contribution to social security.

Service: Army.
Pay grade: E–5.
Over 4 years of service, married, receiving variable housing allowance.

Compensation:	
Cash pay elements:	
BP	$8,971
BAQ	2,812
CMA	122
COLA	1,294
VHA	1,613
BAS (Sep. Rat.)	1,324
Subtotal	16,136
Tax advantage	927
Benefits:	
Retirement (actuarial valuation) [1]	4,420
Health care [2]	869
Commissary and exchange [3]	139
FICA [4]	597
Subtotal	6,025
Total	23,088

[1] Normal cost for military retirement is 49.27 percent. Normal cost computation based on economic assumptions that long-term average annual rates of inflation will be 5 percent, pay increases will be 5.5 percent, and the interest rate will be 6 percent.
[2] Estimate is probably underestimated because the data is not current. Based on actual per capita costs (fiscal year 1973) of $426.99 per service member and $230.57 per each dependent, escalated at 32 percent—the increase in total DOD spending for medical operations from fiscal year 1973 to fiscal year 1976.
[3] Estimate is probably underestimated because the data is not current. Based on per capita costs of appropriated funds for commissary and exchange operations. Per capita costs allocated only to active duty personnel.
[4] Government's contribution to social security.

Service: Air Force.
Pay grade: E–6.
Years of service: Over 14, married, receiving variable housing allowance.

Compensation:	
Cash pay elements:	
BP	$12,280
BAQ	3,060
BAS	1,324
VHA	1,411
CMA	90
Subtotal	18,165
Tax advantage	1,058
Benefits:	
Retirement [1]	6,050
Health care [2]	1,477
Commissary and exchange [3]	139
FICA [4]	817
Subtotal	8,483
Total compensation and benefits	27,706

[1] Normal cost for military retirement is 49.27 percent. Normal cost computation based on economic assumptions that long-term average annual rates of inflation will be 5 percent, pay increases will be 5.5 percent, and the interest rate will be 6 percent.
[2] Estimate is probably underestimated because the data is not current. Based on actual per capita costs (fiscal year 1973) of $426.99 per service member and $230.57 per each dependent, escalated at 32 percent—the increase in total DOD spending for medical operations from fiscal year 1973 to fiscal year 1976.
[3] Estimate is probably underestimated because the data is not current. Based on per capita costs of appropriated funds for commissary and exchange operations. Per capita costs allocated only to active duty personnel.
[4] Government's contribution to social security.

Service: Air Force.
Pay grade: E–7.
Years of service: Over 18, married, living on post.

Compensation:	
Cash pay elements:	
BP	$14,443
BAQ [1]	3,326
BAS	1,324
CMA	90
Subtotal	19,183
Tax advantage	1,173
Benefits:	
Retirement [2]	7,116
Health care [3]	1,781
Commissary and exchange [4]	139
FICA [5]	960
Subtotal	9,996
Total compensation and benefits	30,352

[1] Estimated value of inkind quarters.
[2] Normal cost for military retirement is 49.27. Normal cost computation based on economic assumptions that long-term average annual rates of inflation will be 5 percent, pay increases will be 5.5 percent, and the interest rate will be 6 percent.
[3] Estimate is probably underestimated because the data is not current. Based on actual per capita costs (fiscal year 1973) of $426.99 per service member and $230.57 per each dependent, escalated at 32 percent—the increase in total DOD spending for medical operations from fiscal year 1973 to fiscal year 1976.
[4] Estimate is probably underestimated because the data is not current. Based on per capita costs of appropriated funds for commissary and exchange operations. Per capita costs allocated only to active duty personnel.
[5] Government's contribution to social security.

Service: Air Force.
Pay grade: 0–3.
6 years of service, married, living on post, receiving flight pay.

Compensation:	
Cash pay elements:	
BP	$20,304
BAQ [1]	4,104
BAS	991
ACIP	3,671
Subtotal	29,071
Tax advantage	1,916
Benefits:	
Retirement (actuarial valuation) [2]	10,004
Health Care [3]	869
Commissary and Exchange [4]	139
FICA [5]	1,350
Subtotal	12,362
Total	43,349

[1] Living on post; estimated value of inkind quarters.
[2] Normal cost for military retirement is 49.27 percent. Normal cost computation based on economic assumptions that long-term average annual rates of inflation will be 5 percent, pay increases will be 5.5 percent, and the interest rate will be 6 percent.
[3] Estimate is probably underestimated because the data is not current. Based on actual per capita costs (fiscal year 1973) of $426.99 per service member and $230.57 per each dependent, escalated at 32 percent—the increase in total DOD spending for medical operations fiscal year 1973 to fiscal year 1976.
[4] Estimate is probably underestimated because the data is not current. Based on per capita costs of appropriated funds for commissary and exchange operations. Per capita costs allocated only to active duty personnel.
[5] Government's contribution to social security.

Service: Navy.
Pay grade: 0–3.
Years of service: Over 6, married, receiving flight pay and variable housing allowance.

Compensation:	
Cash pay elements:	
BP	$20,304
BAQ	4,104
BAS	991
VHA	376
Flight pay	3,592
Subtotal	29,367
Tax advantage	1,916
Benefits:	
Retirement [1]	10,004
Health Care [2]	869
Commissary and Exchange [3]	139
FICA [4]	1,350
Subtotal	12,362
Total compensation and benefits	43,645

[1] Normal cost for military retirement is 49.27 percent. Normal cost computation based on economic assumptions that long-term average annual rates of inflation will be 5 percent, pay increases will be 5.5 percent, and the interest rate will be 6 percent.
[2] Estimate is probably underestimated because the data is not current. Based on actual per capita costs (fiscal year 1973) of $426.99 per service member and $230.57 for each dependent, escalated at 32 percent—the increase in total DOD spending for medical operations from fiscal year 1973 to fiscal year 1976.
[3] Estimate is probably underestimated because the data is not current. Based on per capita costs of appropriated funds for commissary and exchange operations. Per capita costs allocated only to active duty personnel.
[4] Government's contribution to social security.

Service: Navy.
Pay grade: 0–4.
Years of service: Over 14, married, receiving variable housing allowance.

Compensation:	
Cash pay elements:	
BP	$25,704
BAQ	4,565
BAS	991
VHA	1,058
Subtotal	31,318
Tax advantage	2,444
Benefits:	
Retirement [1]	12,664
Health care [2]	1,477
Commissary and exchange [3]	139
FICA [4]	1,709
Subtotal	15,989
Total compensation and benefits	50,751

[1] Normal cost for military retirement is 49.27 percent. Normal cost computation based on economic assumptions that long-term average annual rates of inflation will be 5 percent, pay increases will be 5.5 percent, and the interest rate will be 6 percent.
[2] Estimate is probably underestimated because the data is not current. Based on actual per capita costs (fiscal year 1973) of $426.99 per service member and $230.57 per each dependent, escalated at 32 percent—the increase in total DOD spending for medical operations from fiscal year 1973 to fiscal year 1976.
[3] Estimate is probably underestimated because the data is not current. Based on per capita costs of appropriated funds for commissary and exchange operations. Per capita costs allocated only to active duty personnel.
[4] Government's contribution to social security.

Service: Air Force.
Pay grade: 0–5.
22 years of service, married, 2 exemptions, receiving medical pay and variable housing allowance.

Compensation:	
Cash pay elements:	
BP	$32,969
BAQ	5,116
MED PAY	13,248
VHA	1,882
Subtotal	54,206
Tax advantage	4,161
Benefits:	
Retirement (actuarial valuation) [1]	16,244
Health care [2]	869
Commissary and exchange [3]	139
FICA [4]	1,975
Subtotal	19,227
Total	77,594

[1] Normal cost for military retirement is 49.27 percent. Normal cost computation based on economic assumptions that long-term average annual rates of inflation will be 5 percent, pay increases will be 5.5 percent, and the interest rate will be 6 percent.
[2] Estimate is probably underestimated because the data is not current. Based on actual per capita costs (fiscal year 1973) of $426.99 per service member and $230.57 per each dependent, escalated at 32 percent—the increase in total DOD spending for medical operations from fiscal year 1973 to fiscal year 1976.
[3] Estimate is probably underestimated because the data is not current. Based on per capita costs of appropriated funds for commissary and exchange operations. Per capita costs allocated only to active duty personnel.
[4] Government's contribution to social security.

Service: Navy.
Pay grade: O–7.
Years of service: Over 27 years of service, married, receiving variable housing allowance.

Compensation:	
Cash pay elements:	
BP	$45,990
BAQ	6,422
BAS	991
VHA	2,957
Subtotal	56,360
Tax advantage	6,910
Benefits:	
Retirement [1]	22,659
Hospital Care [2]	869
Commissary and Exchange [3]	139
FICA [4]	1,975
Subtotal	25,642
Total compensation and benefits	88,912

[1] Normal cost for military retirement is 49.27 percent. Normal cost computation based on economic assumptions that long-term average annual rates of inflation will be 5 percent, pay increases will be 5.5 percent, and the interest rate will be 6 percent.
[2] Estimate is probably underestimated because the data is not current. Based on actual per capita costs (fiscal year 1973) of $426.99 per service member and $230.57 per each dependent, escalated at 32 percent—the increase in total DOD spending for medical operations from fiscal year 1973 to fiscal year 1976.
[3] Estimate is probably underestimated because the data is not current. Based on per capita costs of appropriated funds for commissary and exchange operations. Per capita costs allocated only to active duty personnel.
[4] Government's contribution to social security.

Service: Air Force.
Pay grade: Brigadier general 0–7.
20 years of service, married (claiming 2 exemptions), living on post, receiving flight pay.

Compensation:	
Cash pay elements:	
BP	$45,990
BAQ [1]	6,422
BAS	991
ACIP	2,400
COLA	244
Subtotal	56,047
Tax advantage	6,910
Benefits:	
Retirement (actuarial valuation) [2]	22,659
Health care [3]	869
Commissary and exchange [4]	139
FICA [5]	1,975
Subtotal	25,642
Total	88,599

[1] Living on post: estimated value of inkind quarters.
[2] Normal cost for military retirement is 49.27 percent. Normal cost computation based on economic assumptions that long-term average annual rates of inflation will be 5 percent, pay increases will be 5.5 percent, and the interest rate will be 6 percent.
[3] Estimate is probably underestimated because the data is not current. Based on actual per capita costs (fiscal year 1973) of $426.99 per service member and $230.57 per each dependent, escalated at 32 percent—the increase in total DOD spending for medical operations from fiscal year 1973 to fiscal year 1976.
[4] Estimate is probably underestimated because the data is not current. Based on per capita costs of appropriated funds for commissary and exchange operations. Per capita costs allocated only to active duty personnel.
[5] Government's contribution to social security.

PAY CHANGE FOR SAMPLE CRITICAL SKILLS IN NAVY,[1] PETTY OFFICER 2D CLASS (E-5), OVER 4 YRS OF SERVICE ASSIGNED NORFOLK, MARRIED WITH 1 CHILD

[Fiscal years]

	Operations specialist		Submarine nuclear propulsion	
	1980	1981	1980	1981
Basic pay	$8,031	$8,971	$8,031	$8,971
Quarters	2,516	2,812	2,516	2,812
Subsistence	1,172	1,438	1,172	1,438
VHA		854		854
Sea pay	300	2,100	300	2,100
Sub pay			960	1,560
Pro pay			1,800	1,800
Bonus[2]	669	4,486	4,016	4,486
Tax advantage	923	1,475	1,011	1,743
Total	13,612	22,136	19,806	25,764
Nominal increase (percent)		63		30

[1] Estimated calculations.
[2] Annualized assuming a reelistment of 3 yrs.

Senator JEPSEN. Senator Exon?

Senator EXON. I was very much interested in your testimony. It was well done. In fact the figures I have had a chance to look at briefly would indicate this will be extremely helpful to us.

When you talk about managing the skills, are you thinking about a restructuring of some type with regard to how we categorize people now or are you thinking of a bonus arrangement or are you thinking of some new type of structure within the services, grades and so forth? Have you thought of any specific recommenation in this area?

Dr. COFFEY. I have been impressed for many years with the approach that the British are taking in which they group their enlisted force into 7, 8, or possibly up to 10 pay groupings based on occupation. All the construction craftsmen are in a grouping. They then are able to set pay rates for people in these groupings based on what their peers are making in the civilian economy. So you have that influence as well as the across-the-board military influence. The individual is a sergeant construction foreman, or sergeant electronic technician which would be in a separate pay grouping.

Now once you have managed in that context you then are raising the question of what are the appropriate tools to give these managers to address these problems? I believe that we should not lock in benefits that will impact on retirement and that will impact in later years when problems are different. The service must have flexibility which says that within these occupational management groups that they insure, first, that people are paid an equitable wage. That has to be given. I submit simply though that under current legislation this should be based on the PATC survey, unless the committee is willing to change that legislation.

Beyond that point we talk in terms of temporary additions necessary to solve problems. I was quite taken with Bob Hale's recommendations and suggestions that this could be in the context of a continuing special proficiency pay for those people who have extraordinary skills and are in short supply, but recognizing, as would be in business, that this would not be on a now and forevermore basis. It would be on the basis of current needs for as long as those needs existed. I believe that this

kind of pay which would reward for services rendered would be a much better way than the up front type bonus payments which often tend to be a loss, as you know.

People get bonuses and for whatever reason end up in different areas or end up leaving the service. I suspect you would attract a somewhat different individual, that people who tend to see things in the long term of higher monthly salaries are a somewhat different breed than the guys and gals who respond to ready cash in hand and see visions of sports cars. So, I would urge consideration in this direction. I think that if we provide across-the-board increases that the problems will still be with us.

They might be somewhat diminished but we are not going to overcome the kind of problems we have identified with these kinds of solutions.

Senator EXON. I take it from your statistics that you have connected with this you don't buy the theory, as we are continually told by the Defense Department and as far as that goes in some cases by the services themselves, that you just have to give these increases to keep morale up, that these people are so low paid that you have to get them up to the comparable rate? What you are saying is that you are not buying that?

Dr. COFFEY. That is correct, sir. I think our view is quite clear that by looking at the facts of what these people are paid and comparing them with the civilian economy and elsewhere they are doing as well as, if not better than, anybody else.

Senator EXON. It seems to me, back to your management idea which you stated, that the services are having a great deal of difficulty coming around to doing something other than paying a man so much when he becomes a private and paying him so much when he is a master sergeant. You used the example, under the British system, where they were paying a construction sergeant so much money. How do you differentiate between a construction sergeant and a construction staff sergeant, the E–4, E–5? Do you do away with military ranking?

Dr. COFFEY. You do not. You just have an extra payment which is related to your professional skill. You are still a sergeant. You still progress to a staff sergeant, et cetera, but it would be within an occupational area.

Senator EXON. So you could have a wide difference of monthly checks going to an E–5 in one area and an E–5 in another?

Dr. COFFEY. That is correct. In the context of military rank, they would still be E–5's and would receive all the honor and respect that requires, but they would be taking home different monthly pay checks because of their different skills and occupations.

Senator EXON. Have you broken down any figures on the total amount or the percentage of the defense budget which is going to manpower needs? We asked that question one time, Mr. Chairman. I don't think we ever got an answer back. We asked the Department of Defense to provide us with some information as to whether or not the United States is paying the highest percentage of our defense budget on manpower. I am sure that the Soviets, for example, are paying a good deal less. In that context, do you have any idea as to whether or not we are paying a higher percentage of our total

defense budget for manpower than, for example, the British under the system you have outlined?

Dr. COFFEY. My recollection is, and I have done some work on this in past years but not all that recently that we are certainly paying far more than the so-called conscript countries such as France, Germany and the like, because of the fact that they do artificially pay conscripts very low wages. Our record of pay in contrast to the all-volunteer force countries such as Canada, the United Kingdom, and Australia, has been somewhat below what they are paying. They have generally accepted—not always honoring but better than we have—the concept that pay in the service should be compatible with civilian pay, that there should be some extra pay given to people in the service for the problems that service life creates, and that this should be done on a nonquestioning basis through an independent body that then is automatically adopted.

We have such a body, but we then get into a yearly debate as to what part of it we will accept. Until we get to the point of having established agreed pay principles, we are going to have these kinds of debates going on. This only concerns, I think, what we would call an equitable salary. An equitable salary will not address some of these problems. The problems have to be addressed by devices above and beyond a reasonable salary.

Senator EXON. If I understand you correctly, you are saying that a radar technician probably is earning more in the British Army or the Canadian Army or Air Force than one in comparable service in the United States?

Dr. COFFEY. Correct. At the same time, Senator, people in currently surplus skills where there is not much demand in the outside economy, such as administrative clerks, are more than likely making more in the American service than their counterpart in the British service. It is a two edged sword. There are surpluses and there are shortages. As long as we are within an authorized manning level, for every shortage there will be a surplus.

Senator EXON. What has been the experience of these other countries that have gone to the all-volunteer service with regard to the intelligence level of the people that they have been able to select? You are familiar with the fact that this committee has been quite concerned about the Army particularly.

Dr. COFFEY. Yes.

Senator EXON. Have they experienced similar situations or have they done a better job of attracting the norm?

Dr. COFFEY. Over time they have done a much better job. I had the pleasure a couple of days ago of talking with a British gentleman with a beautiful name, Mr. Wellbeloved, who is a member of the British Parliament, and a member of the North Atlantic Assembly. They have a manpower subcommittee and they were in town.

He was talking about the record in the British forces which in recent years, due primarily to the fact that they have made major improvements in their pay system and economy which is always a real factor, that their overall quality is very good, far above ours in terms of what they are getting in. But they point out, which must be pointed out, that in terms of the relative size of their forces in relationship to the population they are drawing upon, that it is a much easier job.

We could have a very highly qualified force if our force was 1.3 million, 1.4 million, or 1.5 million. We forget the fact that we are getting a lot of very high quality people. No one questions that fact that we are not. The problem is that we are not getting quite enough of them. What we are trying to address are the ways and means to make that number grow so that it will be an adequate number of high quality people.

Senator EXON. There has been a theory advanced that in an all-volunteer service system such as we have in the United States where in the Army which during one quarter went below 50 percent of enlistees with high school diplomas, that if you simply pay more then you are going to simply be paying more to the same 50 percent or less high school graduates that are coming into the service. I took it from your conversation you don't think that necessarily holds. Do we have any background on which to base whether that might happen or not? If we just keep paying more we are going to find ourselves in the same relative position with the overall quality that we are attracting.

Dr. COFFEY. Probably not, because we are not attracting, and it is doubtful whether money would attract, about half of the youth population that goes on to some form of post-high school education, be it simply junior college for a semester. There are virtually no people entering the service, a handful, that have had anything beyond high school. At the same time you are disqualifying about a quarter of the population through medical and physical standards.

So within the group that is responding, you have very little margin for improvement. The way in which you can improve the quality would be to attract those who are heading off to postsecondary education of some sort. This gets into the arena of the GI bill. The problem with the GI bill is that it very easily becomes institutionalized. If you are considering it as an earned right for people that have served their country, that is one thing and that is how we remember it, that is how I went to school. But if you are considering it in the context of a recruitment tool to overcome a problem, it seems to me that we want to avoid getting in a situation where at some point in the future that problem is no longer there, we are still having to pay out a large amount of money for GI bill benefits.

I think you have to have the ability to take away as well as give, which again comes back to management. I think that if you had this flexibility today to say to people that you would provide these kinds of incentives as reward for good service, that it could be an effective recruiting tool. I would be afraid that if you got locked into legislation, that it would be there in future years when it would not be needed and that it would be used by people who do not need that kind of benefit in order to respond to military service. Again you are talking about the marginal difference between what you have and what you would like. You do have good numbers of high quality kids coming into the service, many of whom after service go on to school after military service. What we are saying is that we want more of them.

So, if we adopt the GI bill, in order to get more, probably we are going to have to pay money to people that today don't need it in order to come into the military and who possess the kind of quality we want.

Senator EXON. Along the lines of some of the suggestions I have heard—that if you take a man into the service and if he does not use his GI bill benefit, he can pass it down to his children. That is a long out year obligation which the Government is assuming.

Dr. COFFEY. Yes; it is.

Senator EXON. Thank you, Mr. Chairman.

Dr. COFFEY. Thank you, Senator.

Senator JEPSEN. Thank you, Dr. Coffey. I am impressed by your testimony. In some subcommittees I am on, the witnesses come in and they read their tract and then they take a swing at the questions. I have a feeling that you do know what you are talking about. That is kind of refreshing. We will probably call on you again.

Dr. COFFEY. Thank you, Senator.

Senator JEPSEN. Thank you.

[Questions with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR ROGER W. JEPSEN

MILITARY JUSTICE

Senator JEPSEN: Dr. Korb, when the Chief of Naval Operations testified before the Senate Armed Services Committee on February 5, 1981, he responded to a question from Senator Nunn indicating the need for several changes to the law in the military justice area. Changes which the committee is considering are:

1. Giving the Services authority to require members who have been sentenced to a punitive discharge by court-martial to go on leave without pay and allowances during appellate review.

2. Amending article 13 of the UCMJ to allow uniform treatment of sentenced prisoners, whether or not their court-martial sentence has been ordered executed.

3. Limiting the right of the accused to individual military counsel at a pre-trial investigation or court-martial to a military counsel who is "reasonably available" and from the same military department as the accused, and allowing the Secretary to define "reasonably available."

4. Permitting constructive service of a Court of Military Review decision on an accused's appellate defense counsel, if he agrees, or by sending a copy of the decision by certified mail to the accused at an address supplied by him, or if he has not provided such an address, to the accused's last known address.

5. Amending Article 69 to require that relief under that article be available only to an accused convicted by a special or summary court-martial who files a written application for relief within two years after his conviction is approved.

Would the DOD support these changes in the law?

Dr. KORB: Yes, we support the proposed changes to the UCMJ.

QUESTIONS SUBMITTED BY SENATOR J. JAMES EXON

THE NAVY'S CONTINUAL ABILITY TO REACH ACCESSION GOALS

Senator EXON. Dr. Korb, as you know, the House Subcommittee has approved a new engineering officer bonus of $15,000 for an initial four-year tour and $3,000 per year as a continuation bonus after four years of service. This new bonus is intended to respond to a shortage of engineering officers, particularly in the Air Force.

However, I am concerned about the impact that your bonus might have on the Navy's ability to attract nuclear officers. According to testimony before this subcommittee, the Navy indicated that in fiscal year 1980, they were only able to recruit 115 nuclear propulsion officer candidates, compared to the goal of 263.

Dr. Korb, do you agree that the Navy's continual ability to reach its accession goals is the most serious officer manning problem and that the failure to bring new people in is, in part, causing current officers to spend additional tours at sea and is hurting retention?

ANSWER. I agree that shortfalls in accessions and retention of nuclear engineers in the Navy is one of the more serious problems in manning the officer force. In recognition of this problem, recent increases in sea pay, submarine duty pay, and continuation pay for nuclear qualified officers were approved. These increases should close the gap in compensation when compared to the private sector. We are beginning to see improvements in accessions and retention in this community that could eventually lead to a more acceptable ratio of sea to shore duty.

I do not believe that the new engineering officer bonus aimed at improving manning of engineer requirements in the Air Force will have a very negative impact on the recruiting of nuclear qualified officers for the Navy. Those engineers desiring to specialize in nuclear propulsion will continue to elect to serve in the Navy over the other services, because: (1) The Navy is the sole trainer in this field; and (2) the bonuses offered by the Navy are double these new bonuses. Rather, these new bonuses will make military service more attractive to the non-nuclear oriented engineer who, upon comparing civilian and military starting salaries, promotion opportunities, pay raises and fringe benefits, will elect to join one of the military services. Thus, these new bonuses will help solve our non-nuclear engineer officer shortages without significant impact on the recruiting of nuclear engineers.

ACCESSION BONUS AND CONTINUATION SPECIAL PAY

Senator EXON. What have been the results of the increase in the accession bonus and the continuation special pay for nuclear officers?

ANSWER. The Navy has reported significant increases in accessions for nuclear submarine officers following implementation of the increases in accession pay, sea pay, and submarine pay. We believe that the continuation bonus has also been effective in that resignations have dropped off, and there have been many requests to withdraw resignations. Also, requests for recall to active duty have increased. While exact percentages are not yet available, the trends have shown considerable improvement in our nuclear officer situation.

NEW ENGINEERING OFFICER BONUS

Senator EXON. Dr. Korb, as I understand it, the Navy will accept into its nuclear program a college graduate who has at least completed courses in physics and calculus. Obviously, engineering graduates would meet these qualifications. Is there a danger that the new engineering officer bonus would draw off potential applicants for the Navy nuclear officer program?

ANSWER. It is apparent that competition will exist between the two programs. However, we do not believe that the new scientific and engineering accession bonus will draw enough officers away from the Navy's nuclear officer program to be of concern.

MILITARY PAY RAISES

Senator EXON. Dr. Korb, the Reagan administration has endorsed a Federal pay reform proposal similar to one presented by the Carter administration. This proposal would decouple the annual military pay raise and civilian pay raise. Instead, Federal civilian pay raises would be based on a comparison with private sector pay and benefits. Military pay raises would continue to be based on a comparison with private sector pay. The President could submit an alternative plan for either military pay or civilian pay or both.

I have introduced a bill, S. 1129, which incorporates this proposal for the military. My bill decouples military and Federal civilian pay raises, based military pay raises on private sector pay and allows the President to submit an alternative plan. Do you support this provision in S. 1129?

ANSWER. Yes, we would support a provision which delinks military from General Schedule (GS) pay raises and instead ties military pay raises to non-Federal salary increases.

S. 1129 AND RMC

Senator EXON. S. 1129, would base the comparability comparison on military Regular Military Compensation (RMC). As you know, Regular Military Compensation includes basic pay, basic allowance for subsistence, basic allowance for quarters (including the variable housing allowance and overseas station allowance), and the tax advantage of not having to pay taxes on these allowances. Basing comparability on Regular Military Compensation rather than just basic pay has two effects: Significant changes in Regular Military Compensation, like the

addition of the variable housing allowance will be specifically considered; other changes that affect the relative status of military pay would also be considered.

For example, if there is a significant tax cut, then disposable income in the private sector would increase, and the tax advantage associated with the basic allowance for quarters and the basic allowance for subsistence for military personnel would be reduced, but there would be no increase in disposable income associated with these items. Basing comparability on Regular Military Compensation assures that military personnel would also have an increase in disposal income with the cash elements of basic pay or the allowances increased to offset any decline in the amount of the tax advantage.

Do you support this provision in S. 1129?

ANSWER. No, we do not support using Regular Military Compensation (RMC) as the base for computing military pay raises. We view RMC as a useful tool for making judgments, in a general sense, about the overall adequacy or inadequacy of military pay levels. However, because the computation of tax advantage necessarily involves making simplifying assumptions, such as all personnel use the standard deduction, it does not have the precisions required for determining pay raises. Many personnel itemize deductions and therefore the tax advantage we attribute to them by assuming the standard deduction may be greatly different from their actual situation. We also do not believe that the variable housing allowance and overseas station housing allowance should be included because they are intended to be supplemental allowances which reimburse military personnel for excessive housing expenses. If we included them in the pay raise, military personnel would be back in the situation they were previously in, i.e., covering excessive housing costs out of their own pockets.

S. 1129 AND EQUAL FLIGHT PAY

Senator EXON. Dr. Korb, warrant officers now receive less flight pay than commissioned officers, even when the warrant officer is in command of a flight. S. 1192 provides for equal flight pay for warrant officers and commissioned officers. Do you support this provision of the bill?

ANSWER. The Department of Defense is currently staffing a similar initiative which supports the concept of equal flight pay for warrant officers and commissioned officers.

PAY INCRESES FOR 0–3S THROUGH 20 YEARS

Senator EXON. Dr. Korb, as you know, last year Congress passed the Defense Officer Personnel Management Act. One of the principal provisions of that bill authorized the selective retention of captains on active duty until 20 years of service. However, under current pay tables, a captain would receive no further pay increases after he has 14 years of service. My bill would continue pay increases for such captains through 20 years of service. Do you support this provision of S. 1129?

ANSWER. While we could support the provision, I should point that DOPMA also provides for longer periods of service for grades above O–3. We are currently considering a number of alternatives that would extend the paylines for these grades as well. Since DOPMA does not become effective until September 15, 1981, I recommend that the provisions in the bill be dropped with the understanding that the Department will make any necessary payline adjustments if later considered appropriate.

Senator JEPSEN. This subcommittee is adjourned.

[Whereupon, at 5:50 p.m. the subcommittee meeting was adjourned, subject to the call of the Chair.]

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